



BUYING POWER—Goods and services sold by business in 1929 went chiefly to the low-income groups. Savings and taxes were more evenly distributed.

Chart III

	Billions
Total estimated value of consumer goods and services produced	\$106.1
Institutional consumption	\$1.8
Purchased by business concerns	1.0
Employees expense accounts	1.0
Annual inventory increase	1.5
	5.3
Total recorded monetary income	\$100.8
Supplementary income	89.6
Total purchasing power	96.4
Excess of individual consumption over purchasing power	4.4

What does this rather impressive residue of nearly four and a half billion dollars represent? It is too considerable to be brushed aside as a net result of possible errors. The answer is speculative until further statistical data are available. We suggest that it is a rough measure

of the net value of the goods and services that in the peak year of prosperity were sold to consumers below cost or without profit, or at less than the cost value plus normal profit, and may represent the amount of business capital that was dissipated in consumption during that year.

If this broad assumption has any basis, it points clearly to the conclusion that the purchasing power of consumers in the lower-income brackets, which depends principally on industrial wages and farm earnings, was too low even in 1929 to buy and pay full cost value plus normal profit for the goods and services they consumed. As the tables and charts indicate, it is these consumers who absorb the bulk of the goods and services sold, and it must have been in competing for a share of their inadequate income that the losses of business capital have chiefly occurred.

One might go farther and suggest that what was not paid out in wages to workers or in dividends to small-income recipients, or in fair prices to farmers, sufficient to enable them to purchase the goods and services produced, was in the end lost to business profits and to business capital anyway. Perhaps this process of dissipation of capital is an inevitable characteristic and a sort of self-preservative compensation mechanism in our economic system; but here one leaves the field of scientific knowledge and enters that of pure speculation.

WHEN IN pre-science days the output was meagre, the maintenance of the working life of the community absorbed a high proportion of it. But under power-producing conditions the disparity between output and a mere sufficiency for maintenance is very great . . . and with every further development in power-production the surplus of output beyond maintenance grows greater and greater. But the distribution of purchasing power to the working life of the nation—which is the general mass of the population—remains a maintenance allowance distribution in wages according to cost of living; a distribution not in any way related to the ratio of production to population, but based on the comparatively static requirements of human bodies for nourishment and physical health. And this means that the consumers' market is equipped with purchasing power, not evenly over the whole population, but very sparsely . . . over the general mass of people. (Fred Henderson, *The Economic Consequences of Power Production*, George Allen & Unwin, Ltd., London, 1931, p. 179.)

Purchasing Power and Wage Policy

The Relation Thereto of Recent Changes in Payrolls, Hours and Earnings in the United States

By EMMETT H. WELCH

Research Associate, Industrial Research Department, University of Pennsylvania, Philadelphia

THE QUESTION of wage policy is very much to the fore at the present time. We are faced on the one hand by the pleas of the deflationists who maintain that a further reduction of wage rates would stimulate production and thus encourage business recovery. The proponents of this line of reasoning maintain that the relative rigidity and inelasticity of wage rates, among other items, are resulting in unequal deflation, and that ultimate recovery can take place only when all items in our price system shall have been deflated in approximately the same proportions.

On the other hand, there are those who maintain that a further reduction in wage rates would only result in a greater unbalancing of consumers' purchasing power as compared with production. Those who hold this latter viewpoint would generally agree in favor of wage-rate reductions if they thought that greater total payrolls would result from such reduction.

The difficulty of deciding whether general wage-rate reductions during a depression would be a good policy or not is due to the fact that wages constitute not only a cost of production but also purchasing power.

Those who favor wage-rate reductions generally emphasize the production rather than the consumption side of our economy. They see the need for industries and nations to reduce their costs in order to compete with others in the production of goods and services. They see prices falling faster than costs; they see some elements in our price system falling faster than others. To them the need for bringing costs into line with selling prices is the dominant factor.

Conversely, those economists who favor maintenance of wage rates in a period of depression consider insufficient consumers' purchasing power as an important cause of business depression, and they therefore come to the conclusion that recovery depends, to a large extent, upon the maintenance or expansion of mass consumers' purchasing power relative to the rate of production of goods and services. These economists emphasize the distribution of income and the ability of

consumers to purchase goods, the rate of saving and of spending, the rate of production of capital and of consumers' goods, and the flow of purchasing power into productive and into consumptive channels as important elements in business depression and recovery.

Both of the above divergent viewpoints in regard to wage policy during depression have an abundance of economic reasoning in their support. The present state of economic knowledge is not adequate to give a completely satisfactory answer as to what wage policies should be followed during a depression. It is the purpose of this paper to present and analyze some statistical data which may be of assistance in considering this problem. In this endeavor it has been impossible to avoid drawing tentative hypotheses. It is hoped by the author that these hypotheses will encourage fundamental research directed to the end of a more adequate solution of the wage-policy question.

Payrolls, Hours and Earnings in Manufacturing Industries¹

Chart I shows the United States Bureau of Labor Statistics indexes of employment and payrolls in manufacturing industries from 1923 to date, with 1926 as the base year. The dash line, representing the payroll index, swings above the index of numbers employed (solid line) throughout 1928 and 1929. From the middle of 1929 on, payrolls have declined much more rapidly than numbers employed. To put the relative declines on a numerical basis, payrolls declined approximately 60 per cent from the second quarter of 1929 to the second quarter of 1932, while the number employed declined approximately 40 per cent. This greater decline in payrolls than in employment has been due to two things, a decrease in hours worked per employe, and a decrease in earnings per hour.

The solid line on Chart II is an index of average weekly earnings per employe obtained by dividing the

¹At the end of this article is an appendix which gives a complete description of the data, sources and methods of analysis.