this report to manufacturing industries. Data compiled by the United States Bureau of Labor Statistics, however, enable some comparisons to be made between manufacturing and non-manufacturing industries.

Payrolls and average weekly earnings in mining industries have declined by about the same amount as in manufacturing industries since 1929. The deflation in payrolls and weekly earnings in wholesale and retail trade has been about one-half as severe as in manufacturing. Payrolls and weekly earnings in public utilities have declined slightly less than one-half as much as in manufacturing industries.

The only groups of workers who have suffered materially less than those in manufacturing have been in mercantile and public utilities. The total number of workers in these industries does not represent over 25 per cent of the total number in the country.

Real Payrolls and Real Hourly Earnings

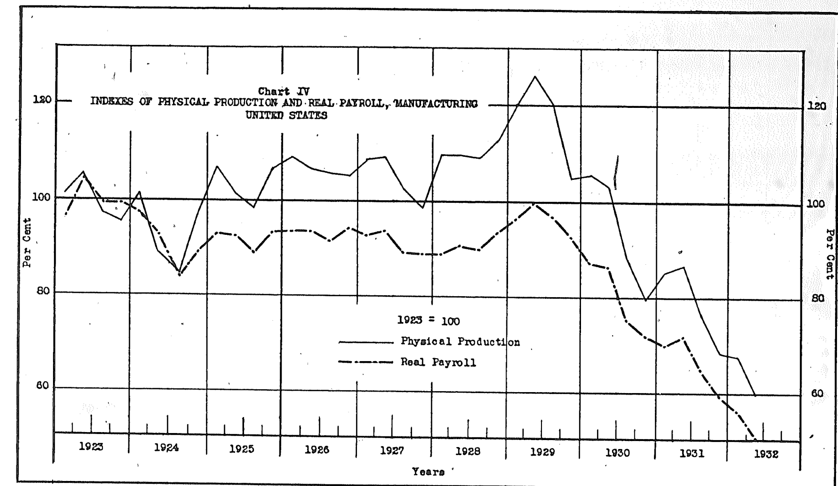
Chart III shows payrolls and average hourly earnings in manufacturing industries corrected for cost of living as reported by the United States Bureau of Labor Statistics. This chart tells an extremely interesting story. Real payrolls—that is, payrolls expressed in terms of the amount of goods they will buy—declined through 1923 and 1924, and remained fairly steady throughout 1925, 1926 and the first half of 1927. The last half of 1927 and the first three quarters of 1928 were on a somewhat lower level, and from the fourth quarter of 1928 to the middle of 1929 real payrolls increased rapidly. Since the middle of 1929 real payrolls have taken a precipitous drop, interrupted only momentarily in the second quarter of 1931. The drop in real payrolls from the middle of 1929 to the second quarter of 1932 amounted to approximately 50 per cent. This decline represents a decrease of over five billion real dollars in the purchasing power of some eight and one-half million factory workers in the United States.

On the other hand, average real earnings per hour—that is, average hourly earnings expressed in terms of the amount of goods they will buy—have increased throughout the nine and one-half year period. The periods of most rapid rise were in 1923-1924 and from 1930 to date. From the second quarter of 1929 to the second quarter of 1932, average real earnings per hour increased approximately 17 per cent. It should not be inferred from this chart that real wage rates—that is, wage rates expressed in terms of the amount of goods they will buy—have increased 17 per cent; as was mentioned above, lower paid workers are generally laid off first, thus tending to hold average hourly earnings up during a period of depression. From an economic and social viewpoint, it is the tremendous decline in real payrolls that is most important. It is payrolls and not wage rates that enable workers to purchase the goods they need.

No one can say with certainty what effect a policy of still lower general wage rates would have had on real payrolls from 1929 to date. There are many who maintain that still lower general wage rates would have kept real payrolls from declining as far as they have. This conclusion is based on the following reasoning: The further lowering of general wage rates would have resulted in a more rapid decline in costs. If costs had declined more rapidly, one of two things would have resulted. Either prices would have declined still farther than they have, or prospective profits would have increased. It is argued that the first possibility would have resulted in greater demand, and hence in greater employment; and that the second possibility would have resulted in increased production and employment due to the profit incentive.

Let us take up these arguments in order and see what assumptions are involved. We shall first assume that employers would have further reduced their unit selling prices by the same amount that unit costs would have been reduced by still lower wage rates. In order that these reductions in prices received by the producers and wholesalers might result in greater demand, it would be necessary that retailers reduce their prices and pass on the savings to the consumers. It is a well-known fact that retail prices do not fall nearly so soon nor nearly so much, either relatively or absolutely, as wholesale prices. As a matter of fact, wholesale prices have fallen twice as much, on a relative basis, as cost of living since the middle of 1929. The difference between their absolute declines is, of course, smaller than the difference between their relative declines. Thus, it is obvious that only part of the effect of further wage-rate reductions would have been reflected in retail-price declines and hence in greater demand.

But even though retail prices had declined more than they have, what assurance do we have that demand would have increased in proportion to the decrease in prices? This assumes elasticity in the demand for all goods when we know that the demand for many goods is very inelastic. Furthermore, it is possible that more rapidly falling prices would have encouraged prospective purchasers to postpone their



purchases still more than they have, hoping to buy at still lower price levels. It seems very doubtful, therefore, whether reduced wage rates would have increased demand, and hence payrolls, by as large an amount as payrolls would have been decreased by the reduction in wage rates.

Let us now assume that employers would not have reduced their selling prices when wage rates were reduced; this would have increased the prospects for profits. Under an economic system such as ours, where the prospect for profits is the chief incentive for business activity, it is true that an improvement in the prospects for profit will encourage production. However, the extent to which a further general reduction in wage rates would be an incentive to increased production may be debated. The individual business or industry approach would have to be used in order to answer this question. For instance, labor costs are not of the same relative importance in different industries. In some industries a 10 per cent decrease in labor costs would have a marked effect on the total cost of the product; in other industries such a reduction in labor cost would have little effect on total cost. In some industries the decreased costs due to reducing wage rates would merely result in smaller losses, and would not result in any profit incentive at all.

Nevertheless, let us assume that still lower general wage rates would have resulted in a substantial increase in the prospects for profits and hence in an increased rate of general production. The question that arises at this point is: Could the additional goods produced have been sold?

If it be true, as many maintain, that our largest problem at the present time is not how to increase production but rather how to distribute enough consumers' purchasing power to consume the goods we have produced and are able to produce, then merely providing a potential profit incentive without providing a market for the goods produced will be ineffective as a means of business recovery. The deflationists' reply to this contention is classical. They would maintain that there can be no deficiency of consumers' purchasing power because production automatically creates the purchasing power needed to consume the goods produced. It is necessary to inquire further, however. The question of how purchasing power is distributed, and for what purpose it is used must be answered. A dollar of purchasing power in the hands of a semi-starved worker will surely be used for consumption purposes, while the same dollar in the hands of a millionaire may be devoted to additional production or be left lying idle. The succeeding sections of this