paper deal not only with the sufficiency, but also with the distribution and use of purchasing power, which are very important factors in determining its adequacy for consumption purposes.

Real Payrolls Compared to Productive Activity

In considering wages in their relationship to consumers' purchasing power, it is not wage rates but volume of wage payments in relationship to volume of goods produced that is of most importance. Chart IV compares the Federal Reserve Bank index of physical production with the index of real payrolls, that is, payrolls divided by cost of living. From 1923 to 1929, these two indexes drew a long way apart. The gap has been narrowed some since the middle of 1929, but at the end of the second quarter of 1932 the two indexes still show a large margin between them. The difference between the two indexes is composed of a number of factors: (1) production, replacement or maintenance of capital goods, (2) accumulated stocks of consumers' goods, (3) installment and credit sales, (4) export balances and (5) consumers' purchasing power other than wage payments. The first four of these factors have to be reckoned with in future periods of time; that is, capital goods are merely congealed consumers' goods. As capital goods are used up, they eventually take the form of consumers' goods, and will have to be purchased out of consumers' purchasing power in future periods. Accumulated stocks of consumers' goods clearly have to be consumed either out of future consumers' purchasing power or out of savings. Installment and credit sales enable consumption to proceed faster than consumers' purchasing power, but this must be compensated for later. Finally, our net export balances will probably disappear now that we are a creditor nation. The fifth factor, alone, would enable production to proceed continually at a faster rate than wage payments. Too much reliance should not be placed on the assumption, however, that consumers' purchasing power is being strengthened from sources other than wage payments. We have set up an industrial system based on mass production and mass consumption. Wage and salary earners constitute the masses, and they must receive sufficient purchasing power to enable the goods produced under mass-production methods to be consumed. In other words, we cannot have mass production without mass consumption. The only alternative for increasing the purchasing power of the masses is to resign ourselves to a low standard of living for the masses, and look toward a more restricted production of luxury goods.

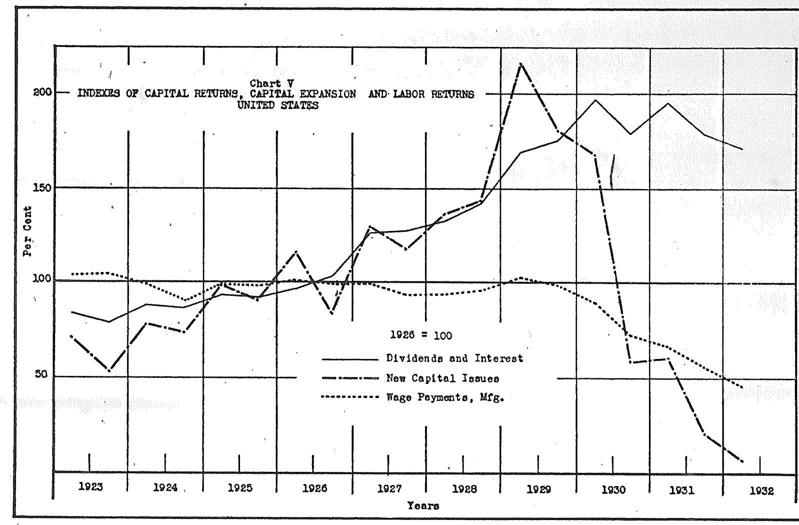
One often hears the argument put forth that although the purchasing power of factory workers is not keeping pace with production of goods, wages and salaries received in the service industries, trade, public utilities, etc., make up this deficiency. Those who put forth this argument often overlook the fact that these non-manufacturing industries are also creating services that have to be paid for out of consumers' purchasing power.

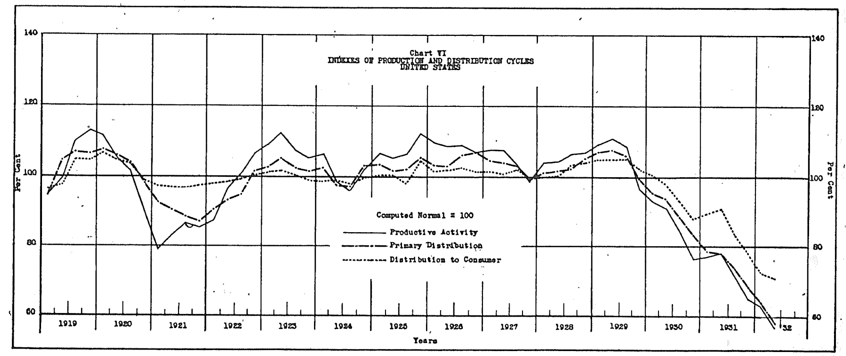
To the extent that these non-manufacturing industries have afforded a means of investing additional capital and employing labor, they have acted as a temporary offset to deficient consumers' purchasing power distributed in manufacturing industries. However, the services created by these non-manufacturing industries have to be paid for out of consumers' purchasing power, and contribute further to the discrepancy between consumers' purchasing power and production unless all of the purchasing power distributed in the production of these services is used for consumptive purchases.

Distribution and Use of Purchasing Power

Chart V compares the total volume of dividend-interest payments and new capital issues with payrolls from 1923 to date. The dividend-interest curve rose continuously but at a fairly moderate rate from 1923 to 1926; from 1926 to the first half of 1930, dividend-interest payments increased at such a rate that the first half of 1930 reached a peak 97 per cent higher than the 1926 level. The total volume of interest and dividend payments in both 1930 and 1931 were higher than in 1929, and in the first half of 1932 they were still 72 per cent above the 1926 level. It is true that a large part of these payments was undoubtedly made out of surplus accumulated before 1930, but the important thing is that these payments were maintained. On the other hand, payrolls have decreased constantly since the middle of 1929 until in the first half of 1932 they reached a level which was 55 per cent below that of 1926.

This index of interest and dividend payments is compiled by the *New York Journal of Commerce* and is published by Standard Statistics. It represents total payments of dividends and interest on corporation stocks and bonds. The rapid increase in total dividend-interest payments has been due to increases both in capitalization and in rate. Stock dividends are not included in this index. We know that many dividend





rates were cut and even omitted in 1930 and 1931, but the amount of corporate securities outstanding is so great that total dividend and interest payments are still about 72 per cent higher than in 1926. The dash line on Chart V shows that new capital issues were being increased at about the same rate as dividend-interest payments from 1923 to the end of 1928. The first half of 1929 showed a very large increase in new capital issues, but subsequently the volume has rapidly declined until in the first half of 1932 it was 93 per cent below the 1926 level.

When we look at this chart and stop to consider