Dividend-Interest Payments and New Corporate Capital Issues

The data upon which the index of dividend and interest payments is based, shown on Chart V, are compiled by the *New York Journal of Commerce* and reported by Standard Statistics. The data on new corporate capital issues are compiled by the *Commerce and Financial Chronicle.* The data were combined into half-yearly periods, and put on an index basis, with 1926 as the base year. These indexes are presented in Tables 12 and 13.

Productive Activity, Primary Distribution and Distribution to Consumer.

The indexes of productive activity, primary distribution, and distribution to consumer, shown on Chart VI, are compiled by Carl Snyder of the New York Federal Reserve Bank. A description of these indexes can be found in the *Journal of the American Statistical Association*, December, 1931. These indexes are on the basis of a computed normal, and are presented on a quarterly basis in Tables 14-16.

Component Parts of the Value of Manufactured Products

The indexes shown on Charts VII and VIII were computed from data reported by the United States Census of Manufacturers. Table 17 presents the original data and the calculations performed to obtain the indexes. The use of two base years was necessitated by the fact that the classification was changed in 1914.

BUT POVERTY and insecurity in a world of abundant resources and of gigantic powers which have been effectively mastered and put in harness for human service is a monstrous stupidity. It is not a deprivation imposed upon us by any lack of natural opportunity, but a failure in human intelligence. Given the resources, their distribution is not a question of natural limits or inevitable laws from which we cannot escape, but of ordinary, sensible human arrangements. . . . It is the conduit, the system of distribution which is the thing alterable at human will. . . . It is our productive capacity alone which sets any limit of natural law to our possible standards of living. . . . It is the aqueduct which must be made capable of carrying the available supplies; and not the supplies which must be restricted to the carrying capacity of an insufficient aqueduct. . . .

ON THE one hand we have a new technique of production which gives us a vastly greater output of all the requirements of life with less and less need for human labour in proportion to its output; and on the other hand, an economy of ownership and distribution which cancels out the purpose of this release of human life from drudgery by making the consuming rights of the mass of mankind still dependent upon the continuous requirement for the exercise of their labour; shutting them out automatically from any claim to consuming rights at all if it does not need to hire and employ them; and, when it has to hire them, measuring their right of consumption by wage-payments related only to the cash-cost of living. Their only claim to consumption is this wage-claim for maintenance while the machine requires their attendance upon it. And in the working of the machine under our present economics of ownership and distribution, the incessant endeavour is to make their attendance required less and less in relation to output; to increase output while diminishing this labour charge upon it, and so to produce more and more cheaply. In a word, to bring each unit of product to completion with less and less labour claim to consumption distributed against it.

The advance of civilization in new knowledge and power applied to production stands essentially for service to and expansion of human life. But the handling and control of this new knowledge and power by our present economic system reverses all that. The human right to consumption, distributed as payment for hired labour, becomes a cost of production, and affects financial values detrimentally by increasing costs; and so the very thing which reason tells us is the central purpose of civilization—the endowment of human life with the widest possible satisfactions—becomes, as a cost of production, the thing which has to be cut down to the smallest possible margin of maintenance for the vast majority of mankind. (Fred Henderson, *The Economic Consequences of Power Production,* George Allen & Unwin, Ltd., London, 1931, pages 63, 64, 65, 115-116.)

Under-consumption[1]

As a Factor in the Economic Cycle

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That the inherent instability of the modern economic system is largely due to a persistent tendency for consumption to be too low relatively to saving is a theory frequently advanced in times of economic depression. Its practical importance—and its interest to students of industrial and social problems—lie in the conclusions to which, if generally accepted, it would give rise. Under-consumption—or excessive saving—is, it suggests, a consequence of great inequality in the distribution of income: too large a share of the total goes to the higher income groups, much of whose income is saved and invested, and too little to wage earners and others whose incomes are devoted mainly to consumption. It would follow, if this theory were correct, that one way to reduce the extent of booms and depressions would be to increase the share of the product of industry which goes to the lower income groups. The theory would also lend support to the view that in a time of depression government expenditure—for example, on such public works as those referred to in a recent Resolution of the International Labour Conference—if financed by loans, would help to redress the balance between saving and consumption, and would thus contribute to recovery. It is to an examination of this theory, with its various practical implications, that the following article is devoted.

THE THEORY of under-consumption is no new one, for it can be traced back to Sismondi. It was first propounded during a period of extreme depression, and it has found new and convinced adherents whenever a crisis has been followed by prolonged business stagnation. It is therefore not surprising that it should make its appearance again to-day.

Even if the theory seems to owe its vitality, or rather its resurrection, to recurrent anomalies, it must not be concluded that it is entirely lacking in foundation or that, being merely an echo of temporary suffering, it is undeserving of scientific consideration. But it requires very careful scrutiny to determine whether it agrees with the results of contemporary research into the business cycle. To formulate the question in this way means that we are leaving aside the older forms of the theory and comparing only its most recent versions with economic facts.[2]

The modern versions of the theory have, however, kept one fundamental characteristic of the original. The under-consumption proffered as an explanation of economic crises is still alleged to be due to the unequal distribution of the total income of capitalist society over the classes which compose that society. The great mass of the people, and more especially the manual workers, receive too small a share of that income and cannot adequately satisfy their essential needs. On the other hand, the rich—the favoured few—have a much larger share than is required for the satisfaction even of their luxury needs. They are therefore led to save and invest a large fraction of their share.[3] Capital investment means chiefly, if not exclusively, an increase in the means of production; this may be quantitative or qualitative, but in both cases it increases producing

[1]Reprinted by permission from *International Labour Review*, Vol. XXVI, No. 1, July, 1932, pp. 8-25.

[2]In particular, this involves rejecting the idea that under-consumption is due to the worker's inability to buy back the product of his labour with his earnings. That idea involves a confusion of thought, for it is impossible to define exactly the product of the labour of, say, a weaver or an office employee. The idea is also false, for the amount of available savings would decrease very considerably if no remuneration at all were being paid. And in any case a premium would have to be paid to the lender to cover his risk.

[3]It is obvious that any change in the use to which this total income is put has a dual effect. An increase in the fraction devoted to capital investment means a decrease in the fraction available for the consumption of finished products, and *vice versa*. In other words, the cause that makes for an increase in the supply of capital reduces the demand, thus increasing the effect of the change referred to. The intervention of credit may neutralise, or it may on the other hand accentuate, this dual effect. If credit is freely extended to producers at a time when saving predominates over spending, the impulse given to capital investment may easily be too great on a shrinking market. The extension of credit for purposes of consumption may, on the other hand, help to reduce this shrinkage. It should be added that the rate of interest cannot be considered as a satisfactory means of regulating saving, and consequently consumption, especially when incomes are very unequally distributed and in some cases very high.