

# Purchasing Ability of the American Consumer Market

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THE future is always the most interesting, the past may be made the most informative, whereas the present ever remains the most obscure.

It was something after the manner of the above reasoning that started some of us on the long and perplexing trail of attempting to discover how the American people lived, derived their income, and in what manner and form—either by self-determination or by force—they elected its disposal.

The complete study of the disposal and of the germination of income has involved a more or less comprehensive measurement over a period of years, of the total annual spending. Such a study, if it is to become useful, must be broken into several major parts; such as total annual agricultural production expenditures, non-agricultural producer expenditures, governmental expenditures, institutional expenditures, distribution expenditures, foreign spending within the given economy both for goods and services, and consumer expenditures.

It is with some aspects of this latter subject—that far off divine event when goods and services finally pass into the hands of the ultimate consumer—that I have been asked to discuss tonight.

It should be recalled at the outset that the results of any such study are to be looked upon as chiefly barometric, whereas the various totals obtained can lay but little claim to strict exactness. It is with the proportions that we are primarily concerned.

There has never been a complete census of the annual expenditures of the American people. There has never been a complete estimate, covering a period of years, of these expenditures. The annual consumption of physical goods by an economy is capable of more or less accurate, though indirect, measurement through our knowledge of the production and pricing of these goods; but the total expenditures of a people as consumers, which includes services and many forms of intangible property, has been in its nature a difficult subject to measure.

If such information could be obtained by means of a questionnaire or schedule to be filled in by each informant there is substantial evidence that these actual returns would contain many errors. It is thus apparent that the average individual is as surprisingly ignorant of both the sum total and distribution of his annual spending as is the American business man for whom it would profit most to know.

Thus at the outset there appears an abundance of barriers to exact measurement, which less than a decade ago would have successfully defied all attempts save only that of pure guessing. Even at this late date there is considerable perfection yet to be made in our growing annual crop of statistics. However inadequate, or whatever the extent of weaknesses in the now available data, it is only because of the practical value of the roughest kind of computation that the problem has been attacked.

It should also be clearly understood that these estimates deal exclusively with the total annual expenditures of individuals as consumers residing within the boundaries of the Continental United States, and that such expenditures are subject to considerable augmentation through the agencies of "trade-in" and of the various forms of credit external to their class and not supplied by them out of their current income.

For the purpose of this study consumer expenditures has been defined as the total expenditures in current monetary terms by all individuals, or for them, for all classes of goods and services consumed or utilized annually in the satisfaction of their needs, other than those expenditures made for commercial or business purposes. "Imputed consumption" has been excluded in order that the results might be comparable with estimates of the total current monetary income of individuals. Such a study has represented an attempt to ascertain, with a minimum degree of error, the extent of such consumer expenditures and commitments, of their apportionment among the various items of the conventional consumer budget, and of their division among the various income classes.

Of the total items included in this survey there can be little lack of agreement although the method of their classification may be subject to varied opinion. Thus the more than 11,000 items have been organized under some 968 separate categories and finally brought together under twelve major headings. It should possibly also be explained that certain forms of consumer expenditure which would indisputably be classified by the individual under one head would not essentially appear under a similar heading in this study. An illustration in point would find their way into our estimates via the various classes of goods consumed or purchased during each period. The purpose or final destination of such expenditures would clearly not form a part of this study.

Likewise the repayment of debt represents to the consumer at the time of payment an expenditure out of current income or out of savings, yet to this study the period during which the debt was incurred, representing obviously the result of some current need for goods or services, would find its way into the expenditures of that period and would thus appear under its proper heading in the annual total. Should such a transaction as debt repayment be added, even if we knew the time and manner of payment, it would clearly involve duplication and could not, save only to the extent in which it involves additional expense in the form of interest charges, be included in this work.

Contrary to popular opinion there does exist a vast body of reliable information surrounding the field of consumption. It is, in many instances, scattered and fragmentary, although when collected and pieced together it may be made to disclose a surprisingly vivid picture of the annual results of our productive and consumptive activities. Against this body of factual material, standing as a guide, is the large number of budget studies that have been made by both the government and private agencies during the past two decades. A further supplementing check as to the approximate correctness of the amplitude of our total estimates as well as trend has been the comprehensive work of several outstanding authorities in the field of our national income.

As a matter of fact, although prior to this study little had been done in the actual statistical measurement of total consumption, so much has been accomplished by way of selective series, and so broad and adequate have been the innumerable studies surrounding this field as to supply the present study with quite definite limits of maximum and minimum error-

range probabilities. It thus became unlikely that errors of any great magnitude could develop which would not be subject to almost immediate detection.

The more significant finding of this study has been that of our rather consistent spending in excess of current income, not alone for the period 1919-1929 but as an inherent characteristic during the past half-century. Another, and perhaps more important disclosure, has been that our rate of savings has exceeded our rate of investment throughout the entire period. The full effect of this latter phenomenon upon the consumer market will shortly be published. The fact that we "saved" in excess of our need for "saving" seems to contradict the prevailing notion that we "squandered" our way into this current depression—but rather indicates that we "saved" our way into bad times, and must now "spend" our way out. The fact that we found the American consumer market to be dominantly that of the small income recipient was not surprising, although much of our public and private business policy would indicate that such an obvious fact is of little or no importance.

From the standpoint of complete scientific detachment it would not ordinarily fall within my province to make any comment as to the social and economic significance of the findings of this particular study. However, the cost of producing and maintaining a population at a reasonable degree of efficiency must concern us all, as this cost can only be paid out of the current national income. The uses, therefore, to which this income is put becomes inevitably of great importance. As a matter of fact, in an advanced economy a careful and accurate knowledge of this disposal of income becomes almost an indispensable factor if outright capital dissipation is to be avoided. And this is even more vitally true today, in a period of materially reduced income, than ever before. A surplus economy that obviously has not the means for intelligently dealing with its surplus is little more in reality than an economy still operating under the principle of scarcity.

The argument has been raised in some conservative quarters that we have vastly over-estimated the extent and the effect of unemployment. This approach further emphasizes the fact that we have with us always a vast army of migratory labor and of unemployed labor, and that many households contain sons and growing daughters who seek an independent means of income in spite of the fact that the head of the family earns sufficient income to maintain a comfortable living for all.

Difficult as this line of reasoning may be to follow, we may profitably trace the ratio of those gainfully occupied to our total population over a period of years and compare this ratio with that of total income in terms of dollars of constant purchasing power.

If, as has been suggested, we are thus permanently to lower this ratio from an average of 38 per cent of our total population as gainfully employed from 1909 to 1929 (a period of twenty years) to that of barely the 25 per cent which now prevails, we may then expect a correspondingly lower national income which can only serve to accelerate our swiftly falling standards of living and retard any expected return to the 1926-1929 levels for at least another twenty years.

If we trace the number of our total gainfully occupied back over a period of years we find approximately the same number of income recipients in 1909, some twenty-three years ago, as are to be found in America today—namely, thirty-four million in both periods.

Oddly enough, if we compare the total national monetary income, deflated series, we also find an almost exact correspondence of our 1932 total income with the total income of 1909

(approximately thirty billion). Yet over this same period of time our population has increased some thirty-six million. And we are today living or trying to live on the same income, with the same numbers employed, as almost a quarter of a century ago.

The outstanding and important factor to consider in this connection is that our present general level of prices, for the major portion of our needs, low as they are, are still some 40 per cent above the prevailing price level of 1909. Thus if we are to continue to pull ourselves up via the automatic deflation route to the "income comforts" of almost twenty-five years ago—which knew little of motor cars, nothing of electrical household devices, radio and airplanes—we can complacently further expect a continuation of price decline of fully one-half from present levels. And even if this could be accomplished, due to our additional thirty-six million population since that date, we would still be forced to live on a standard fully one-third below that of the post-war period.

Absurd and unbelievable as all of this must sound, yet it represents a fairly true picture of our situation today, especially as long as we remain satisfied with our mania for deflation. The only way we have so far been able to guide ourselves through our troubled economic sea has been via the rocky bankruptcy route. At least this has, as always, been the easiest method without involving our tampering with tradition.

As we now approach the year-end we will hear much about the necessity of even further capital write-offs, debt adjustments, overhead reduction and so on. As a comforting social and business stimulant this method will in all probability work somewhat unsatisfactorily, both to the rich and the poor, the producer, distributor and consumer alike.

There has been further criticism from conservative and powerful banking sources to the effect that the country cannot be in such a serious plight or more than one-fourth of our population would now be starving. This argument fails to take into account the fact that we are not only consuming some 500,000 tons less food monthly than one year ago, but that the rapid growth of the "self-help" movement has proven effective throughout the entire country. In this movement we find a process of both direct barter and the free use and circulation of large amounts of scrip of problematical monetary yet of considerable social value. All of this has served to mitigate the enormous distress of the non-income-receiving consumer while the use of these various forms of scrip has in no considerable measure made up for our present deficiency of means of payment.

The nearest estimate, based upon studies of various welfare agencies, indicates the limited circulation within the country of approximately one-third of a billion dollars of such self-created media of exchange, or almost as much of this kind of token money as there are total subsidiary silver or United States notes outstanding.

It presents a pathetic picture to see large numbers of our people, citizens of the great democracy, taking over into their own hands that which has always been considered a proper function of government. Government, according to an ancient thinker, comes into existence in order that men may live together, and continues in existence in order that men may live well.

When business fails to function and after continued efforts cannot pick itself up under its own motive power, it is then time to pick to some other agency. In casting about for such an instrumentality we find the original conception of government to have been an organization created by men and clothed with the necessary compulsory powers for meeting the collec-