

# The business depression of 1930

BY A. B. ADAMS

The present depression, resulting in the production of an excess supply of consumers' goods at prevailing prices, was due primarily to a relative shortage of consumers' purchasing power. The fundamental reason for the surplus of goods was that the value of the consumers' goods offered on the market increased faster than did consumers' money income. The changes in the methods of production during the period 1922-29 brought about disturbances in the distribution of the national money income, as well as in the volume of physical production, which were sufficient to reduce the power of consumers' current money income to purchase, at prevailing prices, the increasing supply of consumers' goods placed on the market. Let us briefly outline how and why the deficiency in consumers' purchasing power developed as a result of the recent technological changes in industry. During this period there was a great increase in the physical volume of production of goods of all kinds; and, at the same time, there was a considerable decrease in the "factory" cost of production per unit, due principally to the displacement of labor by machinery and to greater mass production. While there was a slight increase in wage rates, the number of wage earners employed decreased, and the amount of money paid out as wages did not keep pace with the increase in the value of products produced. With few notable exceptions the prices of the products produced by industrial enterprises did not decrease in proportion to the decrease in the factory cost of production per unit. This improper adjustment, and the increase in the volume of output, gave much greater profits to business enterprises as a whole, which was the basis for the stock market boom. Lower unit labor cost means that less money was paid to wage-earners in proportion to the value of the products produced than was formerly paid to them. Therefore, relative to the annual value of the net product of industry, a larger percentage of the returns was paid to capital and a smaller percentage to labor. As the process continued, the property-owning class was able to command with its current money income a progressively larger percentage of the net

product of industry; and the wage-earning class a regressively smaller percentage of the product of industry.

The gain in the relative position of the property-owning class and the loss of the wage-earning class did not adversely affect the equation of the demand for and supply of goods in general for several years. The increase in the demand for goods in general kept pace with the increase in the supply of goods which were placed on the market. During the expansion period, because the larger part of the increase in the income of the property-owning class was used to purchase capital goods rather than consumers' goods, the increase in demand for producers' goods, unquestionably, was greater than the increase in demand for consumers' goods. Still there was no lagging in the demand for the consumers' goods which were offered on the market.

In spite of the relative decrease in the purchasing power of laborers and farmers, the demand for the consumers' goods offered on the market (at prevailing prices) until 1929 was sustained by the following forces: (1) Because of the time element in production, the increase in the flow of consumers' goods to the market was much less rapid than the increase in general production; (2) Consumers' current purchasing power during the period was considerably augmented by the great growth of installment buying; (3) Our large favorable balance of trade, financed largely through the purchase of foreign securities, created a foreign demand for American consumers' goods, which were temporarily paid for in part by the saving of the Americans who purchased the foreign securities; (4) The rise in the prices of corporate securities, and the stock market boom, financed partly through increased bank credit, gave a big speculative income to a large group of people who spent part of this inflated income in the purchase of luxury-consumption goods; and (5) During the year 1929 business enterprises withheld part of their finished consumer's goods from the market by accumulating large stocks of goods. By the fall of 1929 all of these artificial supports of the market for consumers' goods were

removed, except the accumulation of additional stocks of goods by business enterprises.

If, during the period 1922-29, the prices of fabricated products had been reduced at a slightly greater rate than the rate of decrease in the unit cost of production, the total value of consumers' goods offered in the market would not have increased at a more rapid rate than the flow of consumers' current money income. Under these conditions it would not have been necessary to increase the total wages of laborers. Also, if such a price policy had been followed, agriculture would not have been placed in as great a disadvantageous position as it was. Under those circumstances we would not have had the high profits which were the basis of the stock-market boom, the inflation of bank credit and other movements which brought on the depression. But, the artificial supports for the market were found and the prices of fabricated goods were maintained at a relatively stable level.

During the period of expansion of output, a large part of the increased profits from production were invested in new business enterprises and in the enlargement of old ones. Also considerable additional investment funds which went into expansion were drawn from the increases in bank credit. For a considerable time this increased demand for construction goods and producers' goods of all kinds sustained the market for the growing output of factories and shops. It was during this period that some notable economists were explaining to the world that we had reached a higher permanent level of prices, profits and output in this country. Eventually our increased output began to ripen into an ever-increasing flow of finished consumers' goods and services. It then became necessary to slow down our pace of expansion of construction of all kinds. The markets for both producers' and consumers' goods became heavy, and business enterprises began to cut down their operations. Unemployment increased, this time not because of technological improvements, but because of the reduction in operations. Early in 1929, it became evident that profits of American business corporations would not continue to increase. It later became evident that the profits of these enterprises would not justify the inflated prices of their securities on the stock exchange. The Federal reserve board began to oppose further use of bank credit to support the inflated prices of securities. The stock market tumbled, and business started on its long slide downward.

The use of bank credit intensified and accelerated the recent economic changes, as has been pointed out. Bank credit furnished part of the purchasing power for the goods produced. The earlier increase in bank credit made possible the

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## THE BUSINESS DEPRESSION OF 1930

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large purchase of foreign securities, and thus helped to sustain our huge favorable balance of trade. The expansion of bank credit furnished a part of the purchasing power for the inflation of securities on the stock market, and thus supplied part of the income used for purchasing consumers' goods. The interest rates rose as a result of the expansion of credit, and large quantities of foreign gold was attracted to this country because of the high rates. Carl Snyder of the New York Federal reserve bank makes the point that the export of gold by foreign countries adversely affected their internal trade conditions. The end of the expansion of bank credit brought about a decrease in the demand for goods. In this sense the inflation of credit was one of the principal causes of our present serious difficulties. However, bank credit would not have been inflated to such a degree as it was if borrowers had not borrowed the money in order to take advantage of what they thought were opportunities for large profits. Prospective profits were the fundamental cause of the credit inflation. However, a public control over the expansion of credit will influence the profit-seeking activities of individuals, and thus would hold down the over-production of goods in the cyclical sense.

Mr Snyder calls attention to the fact that the inflation of the stock market decreased America's ability to purchase foreign securities. Certainly, the deflation of this market further decreased our ability to do so. The decrease in the purchase of foreign securities brought about a corresponding decrease in the foreign demand for American goods. The fall in our export trade further glutted our domestic market with goods. The decrease in employment and in profits put a definite curb upon further increase in installment buying, thus causing additional goods to pile up in the market. All of this came about at the time the recent industrial progress was ripening into a much larger flow of consumer's goods into the market. Consequently, large stocks of finished goods piled up in the hands of producers and dealers. In spite of the efforts of business enterprises to hold prices up by reduced output the long and large decline in the general price level has resulted.

The long-standing agricultural depression is related to the present business depression. The small purchasing power of the farming population (due to relatively low prices of agricultural products) since 1920 has adversely affected the demand for consumers' goods in the United States. In spite of this fact, however, the low prices of agricultural products were one of the

forces upon which our great industrial expansion (1922-29) fed. The relatively low prices of agricultural products gave manufacturers cheaper raw materials and relieved them of stronger pressure for increases in wages of workers. Partly as a result of the relative decrease in the agricultural population, the demand for the increased output of finished manufactured goods was sustained by other consumers with the aid of installment buying, favorable balance of trade and speculative money incomes. Since the removal of the artificial supports of the market for manufactured goods, it is evident now that business would be less depressed if the farmers had more purchasing power.

I attach little importance to the reparations and inter-allied debt payments as a cause of our present depression in the United States. We, in this country, developed the forces which produced the depression at a time when the reparations and the inter-allied debt problems were as acute as they are today. I believe that the present world-wide depression was produced in the United States, and in-so-far as business has continued to become more depressed in the European nations, these nations have been adversely affected by what has developed in this country.

I agree with those who hold that both the level and system of prices have lost some of the elasticity they used to have, and that this change has contributed to our present difficulties. The large business enterprises particularly in the fields of mining, manufacturing and trade, through monopolies, cartels, and trade associations have been able in great measure to hold the prices of their products at stable points in the face of an increasing output. The farmers, on the other hand, partly because of the lack of joint ability to control output and the marketing of their products, have little power to hold up the prices of their products. Producers' control of the prices of one class of products and the lack of control by producers of another class of products have thrown the price system out of adjustment and have caused an unbalanced development of industry. This development has brought about a temporary break-down in the producers' control of the prices of manufactured goods.

Professor Joseph Schumpeter of Harvard does not contend that the high rate of wages contributed to the bringing about of the depression, but he does believe that the present high rate of wages retards the readjustments necessary for recovery. I believe that if the total amount of money paid out as wages from 1922 to 1929 had increased in proportion to the increase in value of the goods produced during that period, we would have had today only a very mild business depression, or none at all, instead of the very severe one we now have. If such had been the case, profits during the expansion period would have been less, production would not have in-

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creased as rapidly as it did, the stock market boom (based on higher profits and fed on bank credit) would not have occurred, and we would not have had much credit inflation. Installment buying would not have been as great, neither would the balance of foreign trade have been as large; but the home demand for consumers' goods would have been supported by actual money received rather than by artificial means.

Time will not permit me to discuss the difficulties in the way of recovery from the present depression. However, I must say that I do not agree that the present widespread unemployment situation would be relieved materially by lowering wages. The larger part of the present unemployment is due to the closing down of industry which in turn is due to the excess of goods in the markets.



## SPOTLIGHT

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Muhlbach's rodeo. He indulges in neither war-whoop nor song of the "lone prairie." But he swings a mean rope and the breath of the prairie is in his sandy hair.

He sticks his head around a prop, and the audience receives the pleasure and the shock of recognition. His awkwardness is not foreign to America. Here again is that which was lovable in Lincoln. With his ruffled hair and protruding lip Rogers too has the charm of ugliness.

Of the professional funnymen it has

been said that only Rogers and Cobb suggest their calling: they alone have the "anxious air of getting ready to cut the plate with a hot one." There is about Rogers however none of the profitable cheerfulness and the busy briskness of American citizenry. The slouch suggests his vast indifference to time. His is the easy fellowship of the leisured class: that club life made up of a male countryside which humanized Lincoln's wisdom and made his expression popular. Rogers too has the gift of dramatizing experience that springs from the swapping of yarns with one's neighbors. And with the good-nature, strength, and innocence of the average Western American, he too gives the impression of possessing in addition something of that personal, moral, and intellectual discipline that Herbert Croly claimed places Lincoln with the classic types of consummate personal distinction.

Will in person is irresistible. He is the friend of college presidents and the Prince of Wales. He ropes, hog-ties, and brands his audiences. And they like it, in the capital of the United States as well as in the University of Oklahoma. He pricks the collegian's sophistication, jokes at Oklahoma's traffic rules, jibes at Washington's social wrangles. He is initiated into the collegian's pet fraternity, has hotels and statues raised to him in his home town, and is in on whatever is served at Capitol tea-parties.

Ambassador of the United States to Europe, without Portfolio: Will Rogers, ready to crack his gum on any joke "from Birth Control to Mass Production."

More than any other funnyman of his period he represents the Great Typical American. Like Charlie Chaplin he too is

a symbol. But Charlie's comedy is one of manners; and though he wanders on and off the screen in an eternal isolation, his is the great tradition of the *Commedia dell'Arte*. Rogers has no tradition. And he is never alone. Behind him always are the people. Gauche, wise, friendly, he is the people.



## BEAUTY'S VOTARY

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sieurrr-a wishes, but the storm will surely come." I have never seen a man's face resemble so much the face of a disappointed trail-hound.

"Oh, good then let us go. I have seen all and I am very tired."

His face lighted up incredibly, and he was all attention to my comfort as we got under way. He became excited and as happy as a boy. He was alert to every movement I made and anticipated my statements. I became suddenly interested in him and his changed mood. He lost some of his graceful movement by sudden quick jerks at the oars, and his one eye actually became bright and intelligent. He took one of his hands from the oar to wipe the sweat from his forehead, and before taking the oar again pointed to where the placid water was splashed pink by the after-glow.

The air was soft and the evening calm, and the grinding of the oars in the locks seemed exaggerated. One could hear the voices from the fishing boats far out on the lake.

"Pietro," I said suddenly, "you are

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