Greatly Expanded Production Required for Full Recovery

By **HAROLD G. MOULTON**
President, The Brookings Institution

WASHINGTON — Recovery in the United States has gone far, but it has been marked by two striking characteristics—slowness of the gains in the durable goods industries and the persistence of a great volume of unemployment. At the Brookings Institution, we have made a comprehensive analysis of the American situation which included a detailed study of the production requirements for full recovery. The production task ahead—if standards of living are to be restored even to their former level—is found to be as follows:

1. To make good the actual deterioration of plant and equipment sustained during the depression.

2. To increase productive capital in line with the growth of population.

3. To expand the output of consumption goods in accordance with this growth of population.

The study was made under a grant from the Falk Foundation of Pittsburgh. In it, we sought to estimate how great an increase in output would be required to restore by 1941 a *per capita* level of production and consumption equal to that of 1929. The results of the survey of the situation in the fields of housing and other forms of durable goods, steam railroads, public utilities, industrial enterprises, etc., are striking. It would be necessary to produce such durable goods at the rate of approximately 33 billion dollars annually from 1937 through 1941, as compared with actual production of only 21 billions in 1936, and of 25 billions annually in the boom period between 1925 and 1929.

In other words, to make up for what it did not produce in depression years, and to provide for the needs of an expanding population, the nation would have to produce annually 60 per cent more durable goods than in 1936. Three times as much housing construction would be necessary. In the field of non-durable, consumption goods which are such things as food, clothes, and amusements, such a large expansion would not be needed.

Labor Shortage Might Result

The production program required in the field of durable goods would necessitate—at present working hours—the employment of from 8 to 9 million additional laborers. Making allowance for additional workers needed to produce consumption goods, it appears certain that unless working hours were lengthened, there would be shortages of both skilled and unskilled labor.

Since standards of living cannot be restored to former levels unless productive output is restored, any further shortening of the working week will restrain the expansion of output and thus restrict the raising of standards of living. It should be borne in mind that working hours have been reduced since 1929 by approximately 20 per cent, as compared with only 13 per cent in the preceding 30 years.

The present recovery movement has been marked by steadily increasing wage rates as compared with prices, and this has increased purchasing power among the masses. The employment of more workers as production has expanded has increased the flow of money to the working population; and at the same time those already employed have been able to buy more with their wages. During the same period, profits have been greatly increased from low depression levels as a result of the expansion of output and an increase of efficiency. This efficiency increase has been about in proportion to wage rates.

The recovery movement between 1934 and 1936 was thus soundly based. Production was steadily mounting, purchasing power was being spread broadly among the masses, speculation was not excessive, business men had not stocked up with heavy supplies of goods, and the general balance between production and consumption was satisfactory.

At the end of 1936, therefore, the stage seemed set for a period of great expansion. Production requirements were adequate to absorb all the unemployed. The recovery movement was steadily broadening; the economic system as a whole was in reasonably good balance, and at the same time the possibility of the government balancing its budget appeared somewhat brighter.

Further Expansion Threatened

In recent months, particularly since February, the situation has changed in one vitally important respect. Rapid increases in raw material prices and in wages have laid the basis for an old-time vicious spiral of inflation. While the particular labor groups who receive higher wages may stand to gain for a time, and while the industries in question may temporarily pass on higher costs to consumers, further broad expansion of business activity appears to be threatened.

The advance in the prices of such basic products as iron and steel and other metals, building materials, etc., may hamper expansion of production in certain very important lines. Only recently have the railroads gotten into a financial shape that would permit them to spend much money on new equipment and the building of better roadbed and track. Now, with the price of steel rising, and with wage increases also in prospect, it is doubtful whether the railroads will be able to carry out the extensive programs of rehabilitation which they have planned. Similarly, the building of new houses, apartments, etc., may be held back by the rising prices of building materials. If this turns out to be the case, it will check the reemployment of idl[e] workers, and the attainment of th[e] higher standards of living which ar[e] so greatly desired.

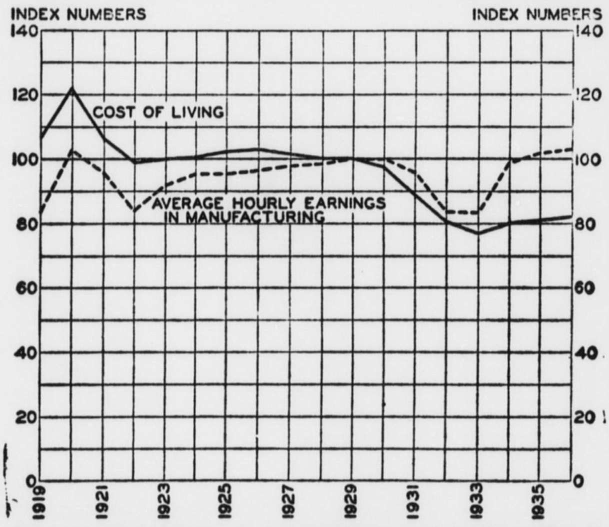
Large sections of the population would soon suffer as a result of a rapid rise in prices. Among them are farmers who do not work for wages, individuals on fixed salaries; and those living on incomes from investments. These constitute more than half the total population. Perhaps the most serious phase of the problem is the possibility of a new disparity between industrial and agricultural prices which may result if wages force industrial prices upward.

Stimulation Only Temporary

The adverse effects upon production may be considerably delayed, because a rise in prices usually stimulates business for the time being. With prices going up, business men and others hasten to place orders and buy extra quantities in order to be ahead of the price advance. This speeds up business activity and for a time increases the demand for labor. Such expansion of demand in turn serves to increase the demand for products and to raise prices the more rapidly. In due course, however, price relationships are so disturbed that certain groups of people lose purchasing power. This, in turn, sets in motion forces which tend to reduce prosperity.

Fortunately, the dangers inherent in this situation appear to have been recognized, and efforts are being made by both business and the government to restrain price advances.

"Real" Hourly Earnings in Manufacturing, 1920-36



The above chart illustrates the improvement in "real" hourly earnings of manufacturing workers that took place from 1919 to 1937. Earnings moved upward, while the cost of living went down, making it possible for workers to buy more for their money. This is particularly noticeable in the recovery period since 1932. It should be kept in mind, however, that the average number of hours worked has been substantially reduced in recent years. On the other hand, the buying power of the consumer's dollar has increased somewhat more than is indicated because of improvement in the quality of goods and services used in the cost-of-living index.

Doctor: Say, Rastus, did you do as I told you; did you take all the powder you could get on a dime yesterday?

Rastus: No sah, boss, I didn't have no dime, so I took all I could get on two nickles.

Stranger: Hey, John, wher[e] you going?

John: How did you know m[y] name was John?

Stranger: I guessed it.

John: Well, guess where I'[m] going then.