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The Role  
of  
Inventories  
in  
Business Cycles

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## PREFACE

THIS PAPER REPORTS BRIEFLY some results of a larger study of cyclical fluctuations in commodity stocks undertaken as part of the National Bureau's general investigation into business cycles. It was read, substantially in its present form, before the Econometric Society in Chicago, December 30, 1947. Several passages have been expanded and a few notes added, but no significant alteration or enlargement has been attempted.

The community's stockpile of goods, which embody some quantity of labor and other resources but have not yet reached the hands of their final consumers or users, is what we commonly call the stocks or inventories of business. The goods are of the most diverse origins, physical qualities, and ultimate destinations. They are held at many stages of production by concerns performing very different functions. Wheat, hides, and bituminous coal, for example, differ significantly in the rapidity with which their supply can be adjusted to changes in demand. The risk of holding women's dresses is much greater than the risk of holding cloth, which in turn is greater than that of holding raw cotton. The speculative dealer holds stocks for a purpose different from that of the manufacturer who fabricates the material or the wholesaler who distributes the fabricated product. These differences, and many others, produce radical dissimilarities in the movements of inventories, and make the problem of detecting uniformities and framing useful generalizations extraordinarily complex. And the problem is rendered still more difficult by a scarcity of reliable statistical records.

These circumstances have conditioned the scope and character of the National Bureau's inventory research. In view of the great differences in the behavior of stocks of different types and in the factors governing their behavior, it seemed best to focus attention initially upon some important category of stocks. The category so far studied most intensively is the inventory held by manufacturers. Within this category, we have been driven to recognize several distinct types of stocks, whose relation to business cycles varies from case to case, but

that together account for the behavior of the total. The decision to concentrate effort on manufacturers' stocks has been doubly rewarding. It has enabled us to study this major block of stocks with sufficient care to reveal its complex nature. At the same time, it has enabled us to understand better the forces controlling inventories held in other branches of business.

The principal purpose of the investigation is to determine what relations fluctuations in manufacturers' stocks bear to business cycles. The study deals with both cycles in inventories and cycles in the accumulation of inventories. The plan is to use what estimates there are of manufacturers' total inventories to establish certain broad characteristics of cyclical behavior. In the process, movements in manufacturers' stocks are compared with those in stocks held by other major divisions in the economy, and the general relation between total business inventories and business cycles indicated. To gain an understanding of the cyclical behavior of manufacturers' stocks revealed by over-all estimates, I have depended on a collection of series representing manufacturers' holdings of individual commodities of many types. These commodities were divided into significant classes, the characteristic behavior of each class established, and the causes of the behavior investigated. By combining these results with estimates of the importance of the several classes, a reasonable account of the behavior of manufacturers' stocks as a whole became possible.

The present paper sets forth some of the results of this investigation and attempts to indicate their significance for business-cycle theory. In such a brief essay, however, the argument is necessarily pared to its essentials and the supporting evidence confined to examples and illustrations. A revised draft of my full report, which makes good these deficiencies, is now about completed and will be ready for publication soon.

Both in preparing this paper and in the larger investigation, I have been greatly helped by my colleagues at the National Bureau. My special thanks go to Carolyn C. Landau and Judith Moss who are assisting me in the general study of inventory cycles. The argument was greatly clarified by Martha Anderson's editorial suggestions. The charts were drawn by H. Irving Forman.

M. A.