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PART III
PROPOSED REMEDIES FOR CYCLICAL
UNEMPLOYMENT

CHAPTER VIII

THE VARIOUS KINDS OF REMEDIES PROPOSED

BY WESLEY C. MITCHELL

NATIONAL BUREAU OF ECONOMIC RESEARCH

I. THE AIM OF PART III

Proposals for preventing business crises and depressions are as old and as numerous as theories concerning their cause. Almost every diagnosis of the disorder has suggested a course of treatment, and the diagnoses have ranged from speculation to "capitalism," from competition or over-saving, from sun spots to morbidity rates. There have been writers who held that nothing can be done to avert the calamities of business cycles, writers who believed that no remedy will suffice short of a reorganization of society or a regeneration of human nature, and writers who found a panacea in some trifling reform.

In this book no effort is made to consider the whole range of these remedies. The aim is to select those proposals current today which seem most practicable and to present the leading facts pertinent to each which must be considered by men who wish to form an intelligent judgment concerning their promise. In accordance with the general plan of the investigation, none of the proposals are advocated in this part of the report, except the proposal to improve the statistics of unemployment. No program of action is offered, though the practical steps necessary to apply some of the remedies are sketched. The various contributors seek to supply, not conclusions, but materials which will help readers to reach their own conclusions. Needless to say, most of the contributors have definite views concerning the merits of the proposals which they discuss. These views will be clear to the attentive reader. It may be added explicitly that the National Bureau of Economic Research neither endorses nor opposes any of the measures treated.

II. DEVICES FOR STABILIZING PRODUCTION

Crises and depressions are national misfortunes because they bring losses upon individual businesses and individual workers or investors. While most of the remedies proposed call for action by government agencies, a considerable number of enterprising business men have sought to help themselves out of these troubles. To this end they have experimented with various devices suited to the particular needs and oppor-

tunities of their several concerns. Mr. Stone and Mr. Thompson have made a brief but diligent canvass of numerous industries to learn what devices have been tried and how they have worked in practice. Their results are set forth in Chapters IX and X.

III. THE PROPOSAL TO TREAT ORDERS AS LEGAL CONTRACTS

In 1920 the cancellation of orders attracted more attention than in any earlier crisis. Not only does cancellation make the confusion of a liquidation worse confounded, but the possibility of cancelling orders later on also incites buyers to give inflated orders during the preceding boom and so increases the blunders which help to bring on the crisis. Hence the suggestion that orders for goods of all sorts be treated strictly as enforceable contracts. The legal and economic aspects of this proposal are treated by Mr. Montague in Chapter XI.

IV. THE PROPOSAL TO USE CONSTRUCTION WORK AS A BALANCE WHEEL

Next to be discussed is the proposal to use construction work as a balance wheel of the business machine. In the chapter on Business Cycles it was shown that the intensity of booms is increased at present by an exceptionally rapid increase in the demand for new construction, that the checking of this demand helps to bring on the crisis, and that its rapid further decline intensifies depression. Since in a rapidly developing country like the United States construction work of all kinds, from the building of houses and ships to the building of machinery and rolling stock, is a factor of considerable magnitude even when set against the imposing figures for total business transactions, and since construction work can be done most cheaply in dull times, several men have suggested that the peaks and valleys of the business cycle can be partially levelled by shifting some construction now done during booms into the subsequent depressions. This proposal is discussed by Mr. Bradford with reference to the building trades at large in Chapter XII, by Mr. Parmelee with reference to railways in Chapter XIII and by Mr. Mallery in reference to public works in Chapter XIV.

V. PROPOSALS TOUCHING CURRENCY AND CREDIT

Many writers have held that the chief cause of crises lies in the misuse of credit and, therefore, that the chief remedy lies in improving our banking or monetary systems. This range of suggestions falls outside the province of a Conference on Unemployment. To treat it adequately would require a separate report larger than the present volume. But not to pass by in silence so important a part of the field, Mr. Adams outlines briefly in Chapter XV the outstanding devices of a financial sort now under discussion for controlling the business cycle.

VI. IMPROVING THE MECHANISM OF THE LABOR MARKET AND PROVIDING UNEMPLOYMENT INSURANCE

Most direct in their reference to unemployment are the proposals to improve the mechanism of the labor market by setting up a system of employment offices under public supervision, and to pay men out-of-work allowances. The first measure is intended to reduce the "reserve army of labor" in good times and bad. It is treated by Mr. Harrison in Chapter XVI. The second measure is intended primarily to reduce the sufferings endured by the unemployed. But it is also expected to prevent the purchasing power of wage-earners from shrinking as much as it does now in depressions and, therefore, to contribute toward mitigating the business difficulties. Further, it is believed by some publicists that unemployment measures can be developed into a powerful agency for preventing unemployment or at least reducing the number of men laid off by employers. Mr. Andrews treats the out-of-work benefits given by trade unions in Chapter XVII and Mr. Wolman the unemployment insurance schemes of governments and business concerns in Chapter XVIII.

VII. BUSINESS STATISTICS AS A MEANS OF CONTROL

There remains the suggestion that, if business men had better information about business conditions and made more effective use of the data, the number of mistakes which contribute toward the breeding of crises would be vastly diminished. In Chapter XX Mr. Knauth reviews the materials now available for business forecasting and sketches the way in which they can be used. Among these materials an index of employment holds high rank as a "business barometer." Since the improvement of this index is a matter of grave importance on other grounds as well, it is given a Chapter (XIX) to itself written by Miss Van Kleeck.

By way of summary a Committee of the Federated American Engineering Societies presents in Chapter XXI a review of the extent to which various devices for stabilizing business throughout the cycle are now applied in practice.