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CHAPTER 1

THE PROBLEM AND THE METHOD

This investigation grew out of an attempt to answer the question: What part does consumer buying play in business cycles? The question divides into three parts: How does consumer buying behave in the course of business fluctuations? How does the distribution and production of consumer goods behave? Why?

On the first point, it is quite clear that at least the dollar volume of consumer buying expands and contracts in general consonance with the waves of business activity identified as business cycles. But we want to know whether the statement applies to all commodities and what characteristic differences in sensitivity they show. Is it true of physical as well as dollar measures? Are "leads" or "lags" often evident? Is there any tendency for relative satiety to set in and evidence itself in retarded rates of growth after prosperity has persisted for some time or for cumulative need to cause the rate of decline to slacken after a long recession?

As to the behavior of the distribution and production of consumer goods, we know that there is a tendency for the production and earlier marketing stages of consumer goods as a whole, as well as for many of its subdivisions, to fluctuate with general business conditions. We know, further, that the amplitude of these movements is often considerably greater than that of consumer buying. Here again, however, more precise and detailed description is needed. We require knowledge of characteristic differences among commodities and among the several vertical stages in the total economic sequence which converts raw materials into finished goods in retail stores.

Finally, concerning "Why?" we know little or nothing. Theory provides us with concepts such as the propensity to consume and the apparatus of preference analysis. Theory likewise supplies explanations of the association between consumer buying and the production of consumer goods, explanations tagged by terms such as the multiplier, the acceleration principle, the classic demand-supply analysis, and several variants of business-cycle theory, especially those dealing with cost-price relationships and "underconsumption." But although the testing of some of the familiar hypotheses is certainly a useful by-product of an empirical study of the consumption and production of consumer goods, it is not a useful primary objective since most of the theories are difficult or impossible to submit to empirical test and much of the problem that requires explanation is not covered by familiar hypotheses.

If the third aspect of the inquiry—Why?—is to be taken seriously, we are faced with the necessity of finding in our examination of empirical materials hints about basic causal interconnections. For we are still at the stage where it is more important to learn with the aid of observed data what specific questions to ask than to learn how to answer the broad questions posed by existing theory.

In attacking the problem posed, I have chosen the method of a case study of a single industry. There were several reasons for the choice. Primarily, it was predicated on the paucity or poor quality of broad series of monthly data. The inadequacy applied to statistics on buying and on the production of consumer goods at the major vertical stages, as well as to various categories of the whole. This meant that wholesale description would remain spotty and insecure.

The second difficulty with the aggregate approach derives from the fact that even a quick exploration showed that it would be necessary to study the detailed purposes and techniques of businessmen, as well as the history of sales and output. This excursion into how businessmen understand, formulate, and conquer their problems seemed essential to learning which are the purposeful and which the passive sectors of change, and, consequently, how the telling questions about process must be phrased. But problems and procedures vary greatly in different lines of business. Consequently, they can be usefully studied, at least initially, only in a fairly narrow environment such as a single industry.

As the work progressed, a positive reason for the case study became evident: the method is especially well suited to analysis of the dynamic interconnection between adjacent stages. My investigations have suggested that in a given industry causal links between buying and selling may differ among the stages more

than these links differ among industries at the same stage. At least the fact of considerable difference among stages has been amply demonstrated.

The shoe retailer perpetuates the fluctuations of consumer takings in his orders to wholesaler or manufacturer; indeed, he almost doubles their amplitude. Furthermore, "turns" in his orders often anticipate those of sales. How can retailers foretell by several months turns in customers' purchases that they may not even recognize as they occur? The explanation hinges on the stern necessity for a retail merchant to plan his stocks and hold to those plans. In consequence he does two things, either of which tends (by a route that cannot be described here) to impart an automatic lead to orders: he adjusts his buying to alterations in the speed and advantage with which merchandise can be obtained; and he makes a prompt correction, by increasing or decreasing fill-in orders, for his inevitable inability to foretell consumer demand accurately when placing advance orders. Retailers' orders tend to reach peaks and troughs ahead of sales because the shoe retailer must closely control a large and highly specified stock if loss through markdowns of unsalable merchandise is to be avoided. This, of course, is a necessity for retailers in many lines.

A magnification and an acceleration of demand occur also between the shoe manufacturers' sale of shoes and purchase of leather, and for some of the same reasons. But here the emphasis falls on the proper timing of buying. Many sorts of leathers used by shoe manufacturers are undifferentiated goods that can be used in the manufacture of many styles and sizes of shoes. Consequently, whether supplies equal a month's, two months', or a three months' output, they can be used, and used profitably, providing they were purchased advantageously. It is the effort to purchase advantageously—to buy at the time when price is relatively low or supply plentiful, or both—that seems to generate the greater and earlier fluctuation of shoe manufacturers' buying relative to their selling. Expected price and delivery conditions are the focus of attention. They are likely to be important determinants of the buying policy of a manufacturer who produces a product for which selling price is determined some time before raw materials *must* be bought, but not before they *may* be bought—a product that is highly particularized and constructed from materials that are durable and not particularized, and have strongly fluctuating prices. These conditions apply to the products of many industries making finished goods.

The tanner, on the other hand, in the course of his buying, tends to lessen the fluctuations transmitted by his sales. It seems likely that the character of the tanning process—its length and the fact that alterations in output are expensive—is partly responsible. The conditions under which hides are bought is likewise important. But the relatively staple character of the finished product, and especially the sensitive association between its price and the price of the raw material, hides, are certainly also relevant, and may apply to early phases in the processing of many sorts of materials.

Having decided that a case study was desirable, my next problem was to select the case. This was not difficult. The shoe, leather, hide sequence afforded exceptional opportunities.

At the consumer end of the chain, shoes answer a single group of consumer needs and consequently provide a chance to study the basis of consumer selection. Of great importance also was the adequacy for this group of industries of that indispensable item of the analyst's kit, monthly time series. Monthly estimates of sales of shoes to consumers could be constructed beginning in 1926, and earlier stages in distribution and production could be identified and traced back, on a monthly basis, to the appearance of the basic raw material. Monthly time series for shoe wholesaling could be pieced together; they were readily available for shoe production. The shoe industry used 85 to 95 per cent of the cattle-hide leather produced in this country, which, in turn, constituted perhaps 65 per cent (by value) of the leather used in shoes; consequently, earlier stages of production—the tanning of cattle-hide leather and the marketing of hides, for which excellent information was also available—could be added to the chain. Accessible material at all levels included monthly information on stocks and prices, as well as on output or sales. The quality of these data, though uneven, was on the whole good, a fact attributable at least in part to the excellent work of the trade association in the tanning industry, the Tanners' Council of America.

It seemed likely that another indispensable tool of the student of economic processes—firsthand information about business objectives and procedures—would be no more difficult to acquire in this industry than in others. As it turned out, I experienced nothing but helpful courtesy in my numerous trips to executive offices or to selling or factory floors. Finally, the industry was selected for negative reasons. It was not so small as to make a case study absurd, nor was it more than usually idiomatic with respect to the sorts of proc-

esses comprehended, the business problems encountered, or the financial and corporate structure of the industry.

For these several reasons, then, the shoe, leather, hide industry was chosen as the vehicle for exploring the part that consumer buying, and the economic arrangements whereby consumer goods are produced and marketed, play in business fluctuation. But the broad objective is pursued by concentrating on the narrow one. We deal throughout the book with the single consumer good and industry sequence. We deal, moreover, only with the peacetime period after 1921 between the two world wars when business processes can be viewed without the special characteristics imposed by a war and immediate postwar economy.

After learning a few basic facts about the industry, we view in Chapter 3 the outlines of cyclical fluctuation in each of the major steps from finished shoe to the appearance of raw cattle hides. Subsequent chapters consider the steps one by one. They endeavor to explore how sales, output, stocks, and prices behave and why they behave as they do. In the two last chapters, what has been learned about each step in the vertical sequence is focused on the process of fluctuation itself—fluctuation both of the general order of business cycles and of a more staccato rhythm, subcycles. Not until the closing pages of the book do we return to the larger question of consumption and consumer goods industries at large and try to summarize what the microcosm has told of the macrocosm.