CHAPTER VIII

CONSUMERS' GOODS IN RECOVERY

THE War-time advance in prices and the subsequent decline of 1920–21 left the prices of finished goods—articles entering into capital equipment and goods intended for direct consumption—on a relatively high plateau. A variety of forces had widened the fabricational margin and raised the real cost of finished goods. Both labor costs and overhead costs were maintained at high levels, in relation to pre-War standards. It is improbable that this very substantial modification of the pre-War situation and of all earlier tendencies would have persisted without the aid of fortuitous conditions, already noted in Chapter II. Our exports of consumers' goods as well as of capital goods during this period were supported in part by heavy foreign loans. The funds of American investors in foreign securities helped, thus, to sustain the production and the prices of finished consumers' goods. Again, speculative profits reaped from the expanding values of securities and real estate swelled the incomes of consumers. Not all the profits actually realized were expended on consumers' goods, but important elements of the total went into their purchase. Furthermore, taxes were being reduced relatively to the swelling incomes of the prosperous groups. Finally, the rapidly expanding volume of consumer credit represented a new source of purchasing power. The flow of income reaching consumers from the ordinary productive-distributive processes of economic life was thus augmented, during the 'twenties, by important additions, which were essentially non-recurring. These additions were material factors in the maintenance, from 1925 to 1929, of a wholesale price level for finished consumers' goods from 5 to 10 per cent above the level of general wholesale prices, with a correspondingly enhanced level of retail prices.

Price and production movements affecting consumers' goods during the decline from 1929 to the winter of 1932–33 resembled those of earlier recessions. Goods ready for consumption suffered smaller declines than did producers' goods, and so increased in relative worth. This was notably true of manufactured consumers' goods, which in February 1933 had a real per unit value 8 per cent greater than in 1929, 14 per cent greater than in 1913. This circumstance, together with the decline in consumer incomes, reduced materially the volume of goods moving into the hands of consumers. In 1932 the physical volume of manufactured consumers' goods produced was approximately 28 per cent less than in 1929. On a monthly basis the decline was even greater. In February 1933 the output was some 32 per cent less than in July 1929.

True, the drop in the output of manufactured consumers' goods was much less severe than in the production of capital equipment or in construction. Indeed, many classes of consumers' goods declined but slightly, and retail trade in many lines suffered little loss in volume during even the worst years of the depression. It would be easy to conclude that the losses in the consumers' goods fields were relatively inconsequential, that the depression difficulties originate in and are confined to the capital goods industries. But to reason thus would be to misread the evidence and, in some degree, to mistake the character of the causal relations in a business recession. The losses suffered by consumers' goods industries are reflected in intensified form in the earlier stages of the productive process and in the capital goods industries. Activity in these industries depends ultimately upon the possibility of profit in the production and sale of consumers' goods. There are circular relations here, of course. Restriction of investment and of employment in the heavy industries reduces the purchasing power of consumers. But there are strong chains of causal sequence running from consumers' goods industries to capital equipment and producers' goods generally, and these, with the amplifications of expansion and contraction that accompany them, are important factors in the cyclical movements of business. It would be quite wrong, therefore, to conclude that all the forces initiating recession originate in the heavy industries because the contractions in these industries are more severe than those in other economic areas.

The reduction brought by the depression in the output of consumers' goods proper reflected a major decline in the living standards of the people of the United States. It was the physical manifestation of the income losses suffered by farmers, industrial and clerical workers and others, and of the disparate price movements that helped to jam the industrial machine. As among different classes of consumers' goods the decline in production was uneven, of course. Durable consumers' goods (such as automobiles and houses) suffered greater declines than non-durable; the output of luxuries fell off more sharply than did that of necessities. But with very few exceptions all classes of consumers' goods suffered in some degree.

The conditions essential to the restoration of a normal volume of production of consumers' goods were many and complex. Our concern at the moment is with those that are directly related to price and cost factors.

A price readjustment that would raise the aggregate purchasing power of consuming groups was urgent at the low point of the depression. Low prices of raw materials and high prices of finished consumers' goods served, at once, to lower the money incomes of important consuming groups and to reduce the volume of goods that the money incomes would buy. Some of the conditions affecting the prices of raw materials and of fabricated goods have already been touched upon. We have seen, in particular, that the high relative prices of finished goods were in part due to reduced volume and to the difficulty of lowering overhead costs to the depression level of general prices. Here we have an example of the vicious circle of high prices, with resulting low output and sales, and of high costs as a resultant of low volume. Some escape from this condition was sorely needed.

The loss of purchasing power during the depression by producers of raw materials was but a phase of a general decline of the national income, in which all groups shared. Between 1929 and 1932 the total national income paid out declined approximately 40 per cent; wage earners and dividend recipients suffered most severely. A real correction of the situation of consumers called for the restoration of incomes to the pre-recession level, account being taken of changes in the prices of the goods for which these incomes are spent. This was not necessarily a task of restoring 'equilibrium' in the economic system. Equilibrium, as a state of balance among the various pecuniary quantities equated against one another in the distribution of income and the exchange of goods, may be effected at any one of an infinite number of levels. What is required for a high standard of living is equilibrium at a high level of activity. A central problem of recovery, after prolonged depression, is that of breaking the pathological balance that prevails at a low level, with excess productive capacity co-existing with unemployment, and substituting for it a balance at which resources are more fully utilized and standards of living among all producing groups are high.

When economic activity has fallen to a low level, say with high prices and low output on the part of one trading group, low prices and high output for another group, a strong stimulus is needed to break these relations. For, in default of a definite push, a correction of these conditions may be long deferred. Current buying power is balanced against goods currently offered for sale, and since the buying power arises from the operations of producing these goods, subnormal activity may persist for a long period. A stimulus may come from outside the economy, as from heavy foreign orders, or from a changed outlook that leads other producers or consumers to gamble on the ultimate realization of more income than is then in sight. (Other slowly-germinating internal forces may make for ultimate expansion, for the state of balance at the low level is not necessarily a long-run balance.) The elasticity that makes it possible for such a changed outlook to affect current trading relations derives, of course, from the credit mechanism, which can provide buying power before anticipated income is actually realized. Given a stimulus arising from one of these sources, price relations may be modified and equilibrium in terms of a higher physical output achieved.

The problem of breaking the vicious circle of low output and low purchasing power has another important aspect. In a money economy a large portion of the sums that represent disbursements of purchasing power on the one hand represents costs on the other. Salaries and wages on the producers' account books are costs, and must be covered by receipts from the sale of goods produced. If we could ignore the time lag involved we might say that in a completely closed system, in which disbursements representing costs of production went to precisely the group of persons who constitute the final market for the goods produced, whether costs (and related prices) stood on high or low levels would be a matter of indifference as regards the current movements of goods. But when the disbursements go to a smaller group than those who buy the products, or a different group, the relative levels of costs and of prices may be of profound importance. For the prices necessary to cover higher disbursements may be too high, in relation to the current income of the consuming group at large. Under these conditions an advance in costs and in prices may reduce the physical volume of goods sold, or impede expansion. Because buying and producing groups for the major classes of commodities are not identical, in a modern economy, such discrepancies as we have recently witnessed between costs and prices on the one hand and current income on the other may develop. (Time differences enter as well, as factors making for discrepancies.) In the ultimate equations of trading relations these discrepancies are offset by adjustments in quantities, downward adjustments that mean seriously reduced living standards. Here are conflicting requirements to be reconciled somehow in the process of recovery—augmented purchasing power, on the one side, costs and prices adjusted to the lower money incomes of consuming groups at large, on the other. Our survey of the fortunes of consumers during recovery must therefore include reference to those phases of the recovery program that bear upon the cost side of producer-consumer relations.

Among the problems of recovery we should note, too, the situation created by the virtual disappearance of the nonrecurring elements that had bolstered current purchasing power during the expansion of 1922–29. The making of foreign loans by American investors had practically ceased, and the stimulation of the markets for consumers' goods that had come from this source was gone. Speculative profits had been very greatly reduced. Indeed, capital losses doubtless served in some degree to reduce current income available for the purchase of consumers' goods, so that an actual negative factor was introduced. Finally, those important additions to current buying power derived through tapping a greatly expanded reservoir of consumer credit, were greatly reduced.

Of course, recovery held possibilities of new additions to purchasing power from all these sources, but these possibilities did not look very bright at the low point of the depression.

Another problem arises out of this last condition. One important characteristic of post-War expansion was the persistence of high prices for goods ready for final consumption; by all earlier standards the costs to consumers of the services of fabricators were high. Recession accentuated the high cost of living in general and the high prices of consumers' goods in particular, but it is important to recall that these costs and prices had been high prior to the recession. We have noted one reason why a high volume of production and relatively high standards of living were possible under these pre-recession conditions. Abnormal and non-recurring elements swelled the current incomes of important consuming groups during the unusual conditions of post-War prosperity. The disappearance of these elements raised a real question whether even pre-recession price relations might allow a restoration of the volume of production we had known at the height of the expansion of the 'twenties. This question will be before us in the discussion of recovery.

The problems of recovery and the conscious program of recovery in terms of which the Administration acted from 1933 to 1936 centered in a very real sense about the consumer. Perhaps the most critical question was whether the incomes of consumers at large could support an expanding volume of activity under the price and cost conditions inherited from the depression, as modified by the steps being taken under the programs of industrial and agricultural recovery. Monetary measures, modifications of wages and hours in industrial and commercial enterprise, anti-price cutting efforts, the authorization of trade agreements among competing producers, the restriction of agricultural output and the levying of processing taxes for the purpose of restoring a pre-War price parity among agricultural and other producers—all these affected the purchasing power of consumers, in some respects adversely, in some respects favorably. Some of these have been discussed in preceding pages. We turn now to the price record.

Price Changes among Consumers' Goods

In following the price movements of recovery, as they affected consumers' goods, we shall deal with changes in per unit worth (purchasing power) as well as with actual prices. The changes brought about by recovery are shown against the background of recession in Table 54.

During the first five months of rapid advance in general prices, manufactured goods ready for use by the final consumer, which were relatively high priced at the low point of depression, lagged. Their prices advanced 10 per cent, while the general average for all commodities rose 17 per cent. Raw consumers' goods leaped upwards 24 per cent. Over the next ten months the rise in the general price level was much smaller. Among goods ready for consumption raw materials declined in price, processed goods continued to advance. Drought and crop scarcity gave a further fillip to raw consumers' goods in the summer of 1934; the next year and a half brought a slight net decline in their prices. Crop conditions in the summer of 1936 stimulated a rise to a new high level. The price of processed consumers' goods, however, showed no net change from September 1934 to June 1936, and for all consumers' goods the rise amounted to less than one per cent.

Chief interest attaches to these changes in relation to earlier standards, and in terms of per unit purchasing power. At the low point of the depression raw consumers' goods were some 10 per cent undervalued, with reference to July 1929

TABLE 54

RECOVERY IN THE PRICES AND PURCHASING POWER OF CONSUMERS' GOODS, JULY 1929–JUNE 1936

A. MOVEMENTS OF WHOLESALE PRICES

	July 1929	*Feb. 1933*	*July 1933*	*Oct. 1933*	*May 1934*	*Sept. 1934*	*May 1935*	*Dec. 1935*	*Apr. 1936*	*June 1936*
RECESSION AND RECOVERY										
Consumers' goods, all	100	64	73	76	77	82	84	85	82	82
Raw	100	56	69	67	67	74	72	73	71	77
Processed	100	66	73	78	80	83	87	88	85	83
All commodities	100	62	72	74	77	81	83	84	82	82
RECOVERY										
Consumers' goods, all		100	113	118	120	126	130	132	128	128
Raw		100	124	120	120	132	128	131	127	138
Processed		100	110	117	120	125	130	132	128	125
All commodities		100	117	121	125	131	134	135	133	132

B. CHANGES IN PER UNIT PURCHASING POWER

	July 1929	*Feb. 1933*	*July 1933*	*Oct. 1933*	*May 1934*	*Sept. 1934*	*May 1935*	*Dec. 1935*	*Apr. 1936*	*June 1936*
RECESSION AND RECOVERY										
Consumers' goods, all	100	104	100	102	100	101	101	102	100	100
Raw	100	90	96	90	87	92	86	88	86	94
Processed	100	108	102	105	104	103	104	105	104	102
All commodities	100	100	100	100	100	100	100	100	100	100
RECOVERY										
Consumers' goods, all		100	96	97	96	97	97	97	96	96
Raw		100	106	100	96	101	95	97	95	104
Processed		100	94	97	96	96	97	98	96	95
All commodities		100	100	100	100	100	100	100	100	100

relations, while the real per unit worth of processed consumers' goods was about 8 per cent higher. By June 1936 the index of per unit worth of raw consumers' goods had advanced to 94; that for processed consumers' goods had fallen to 102. The index of per unit purchasing power for all consumers' goods had declined from 104 in February 1933 to 100 in June 1936 (the base of reference is July 1929). In so far as price relations at wholesale define consumers' positions (that is, in so far as no increase occurred in the price margins of retailers), the adverse buying position in which consumers had been placed during the recession had been corrected by the early summer of 1936.

But the 1929 standard is not altogether satisfactory for use in appraising market relations. Consumers' goods had been relatively high priced during the entire post-War expansion. We shall do well, therefore, to refer the price changes of recovery to a pre-War base (Table 55).

TABLE 55

PRICES AND PURCHASING POWER OF CONSUMERS' GOODS, 1913–1936

	1913	*July 1929*	*Feb. 1933*	*July 1933*	*Oct. 1933*	*May 1934*	*Sept. 1934*	*May 1935*	*Dec. 1935*	*Apr. 1936*	*June 1936*
INDEX NUMBERS OF WHOLESALE PRICES											
Consumers' goods,											
all	100	161	104	117	122	125	131	135	137	132	133
Raw	100	172	96	119	116	115	127	123	126	122	133
Processed	100	159	106	117	124	127	132	138	140	135	133
All commodities	100	150	92	108	112	115	121	124	125	123	122
INDEX NUMBERS OF PER UNIT PURCHASING POWER											
Consumers' goods,											
all	100	108	112	108	109	108	108	108	109	108	108
Raw	100	115	104	110	104	100	105	99	101	99	108
Processed	100	106	114	108	111	110	110	111	112	110	108
All commodities	100	100	100	100	100	100	100	100	100	100	100

For the present purpose the measurements of purchasing power changes are probably more significant than the wholesale price index numbers. An advantage of 8 per cent in per unit worth, which consumers' goods enjoyed in July 1929, was increased to 12 per cent at the low point of the depression. This stood again at 8 per cent in May 1934 and in June 1936. The general post-War advantage persisted, but the special gains of the depression had been erased. During depression and recovery, however, the relations between the raw and processed components of the group of consumers' goods shifted notably. Raw materials ready for consumption lost a differential advantage of 15 per cent, which they had enjoyed in July 1929, and were restored by April 1936 to approximate pre-War parity with commodities in general. A sharp rise in the second quarter of 1936 created a differential of 8 per cent. The per unit purchasing power of processed consumers' goods was slightly increased, the pre-recession advantage of 6 per cent, on the 1913 base, being raised to 8 per cent, in June 1936. The striking post-War phenomenon of high-priced consumers' goods, persisted, at the last date here shown.

The general picture of the market position of consumers may be clearer if we bring together index numbers relating to three main classes of consumers' goods (Table 56). The

TABLE 56

PER UNIT PURCHASING POWER, AT WHOLESALE, OF THREE CLASSES OF CONSUMERS' GOODS, 1913–1936

	1913	*July 1929*	*Feb. 1933*	*July 1933*	*Oct. 1933*	*May 1934*	*Sept. 1934*	*May 1935*	*Dec. 1935*	*Apr. 1936*	*June 1936*
All consumers' goods		100	104	100	102	100	101	101	102	100	100
Raw materials ready for consumption (foods)		100	90	96	90	87	92	86	88	86	94
Processed foods		100	96	92	90	92	98	105	106	101	98
Processed non-foods		100	119	110	118	114	108	103	104	106	106
All consumers' goods	100	108	112	108	109	108	108	108	109	108	108
Raw materials ready for consumption (foods)	100	115	104	110	104	100	105	99	101	99	108
Processed foods	100	102	98	94	92	94	100	108	109	104	100
Processed non-foods	100	111	132	123	131	127	120	115	116	118	118

measurements relate to changes in the average per unit purchasing power of goods in each class, as well as all consumers' goods. In preparing this table the price index numbers for the several groups have been deflated by an index of general wholesale prices.

At the depression low the two food groups were below their pre-recession price parity with commodities in general; finished non-foods were well above. The net result of recovery up to June 1936 was somewhat to enhance processed foods and food products ready for consumption in raw state (e.g., milk and dairy products, and vegetables) and to bring processed non-foods closer to parity with other commodities, although they were still above the average. Some shifts occurred also with reference to the 1913 situation. Prices of consumers' goods were 8 per cent above 'all commodities' in June 1936, at substantially the July 1929 level of purchasing power. Processed food products stood on a parity with general wholesale prices, and well below the general level of consumers' goods prices. Above these, and contributing to the relatively high prices of consumers' goods in general, we find food products ready for consumption in raw state. Processed non-food products constituted the most high-priced element of the consumers' goods group. In real worth per unit these goods stood 18 per cent higher than in 1913.

The general high level of fabricational costs was one reason for this condition. (Quality changes account in part for the advance in the prices of manufactured non-food products, as has been pointed out elsewhere.) Processing taxes on important agricultural products had constituted another force making for high prices to consumers up to the end of 1935. Also, crop reduction and drought had served to limit the supply and to enhance the prices of agricultural products subject to processing before being ready for use. Raw consumers' goods were not affected in the same degree. The net result of all these forces was to raise the prices paid by consumers, and, correspondingly, to impede an expansion in the volume of goods that consumer incomes might purchase.

Living Costs and Retail Prices

For certain classes of goods we have records of changes in the prices paid directly by various classes of consumers. These are brought together in Table 57, in comparison with measurements of price changes at wholesale. Between February 1933 and June 1936, while the general index of wholesale prices rose 32 per cent, and wholesale prices of consumers' goods rose 28 per cent, the three retail price index numbers here cited advanced by amounts ranging from 20 to 36 per cent. The rise in retail food prices exceeded the advance in the general index of wholesale prices, a most unusual condition in recovery. The index of living costs of industrial wage earners, which includes such stable elements as rent, in addition to food and other retail prices, rose 12 per cent. These were very substantial advances to have occurred over three years, and represented material increases in the prices paid by final consumers. But we may judge their significance better if we review them against earlier bases.

The gains of recovery left living costs of industrial wage earners and prices paid by farmers some 20 per cent below their 1929 levels. Here they stood roughly on a level with wholesale prices in general. Retail food prices and prices of clothing and home furnishings were, respectively, 22 and 26 per cent below their 1929 levels. But if the standard of reference be 1913, far greater differences are revealed. In June 1936 the wholesale price index was 22 per cent higher than in 1913. Consumers' goods, at wholesale, were 33 per cent higher; prices paid by farmers were 20 per cent higher; living

TABLE 57

LIVING COSTS OF INDUSTRIAL WAGE EARNERS AND CERTAIN RETAIL PRICES, 1913–1936 [1]

	1913	July 1929	Feb. 1933	July 1933	Oct. 1933	May 1934	Sept. 1934	May 1935	Dec. 1935	Apr. 1936	June 1936
Cost of living, industrial wage earners			100	104	107	106	108	110	111	110	112
Retail food prices			100	109	116	119	125	133	134	130	136
Retail prices of clothing and home furnishings, in large department stores			100	109	125	127	126	123	126	126	126
Prices paid by farmers for living and production			100	106	115	120	125	126	121	120	120
Consumers' goods, at wholesale			100	113	118	120	126	130	132	128	128
All commodities, at wholesale			100	117	121	125	131	134	135	133	132
Cost of living, industrial wage earners		100	74	77	79	78	80	81	82	81	82
Retail food prices		100	58	63	67	69	72	76	77	75	78
Retail prices of clothing and home furnishings, in large department stores		100 [2]	59	64	74	75	74	72	74	74	74
Prices paid by farmers for living and production		100	66	70	76	79	82	83	80	79	79
Consumers' goods, at wholesale		100	64	73	76	77	82	84	85	82	82
All commodities, at wholesale		100	62	72	74	77	81	83	84	82	82

	1913	July 1929	Feb. 1933	July 1933	Oct. 1933	May 1934	Sept. 1934	May 1935	Dec. 1935	Apr. 1936	June 1936
Cost of living, industrial wage earners	100	174	128	134	137	136	139	141	142	141	143
Retail food prices	100	169	97	106	112	116	122	129	130	126	132
Prices paid by farmers for living and production	100	151	100	106	115	120	125	126	121	120	120
Consumers' goods, at wholesale	100	161	104	117	122	125	131	135	137	132	133
All commodities, at wholesale	100	150	92	108	111	115	121	124	125	123	122

1 For sources see footnote 27, p. 149.

2 October 1929.

costs for industrial wage earners were no less than 43 per cent higher.

Here, again, we have evidence confirming the general conclusion reached at an earlier point. Three years of recovery had done much to wipe out the price disparities which, with reference to a 1929 standard, prevailed at the low point of the depression. By June 1936 the prices paid by consumers were not so far out of line with the prices of other goods as they had been in February 1933. But many important price relations were still far removed from those prevailing in pre-War years. The whole era of post-War prosperity had been marked by some highly novel price relations. Among the most striking were the high prices of most consumers' goods. The expansion of the 'twenties was characterized by relatively high production costs, relatively high prices to consumers for finished goods.[1] Paralleling these conditions, and making possible a heavy volume of construction and of trade in spite of them, there existed a relatively heavy pressure of investment funds and of consumer purchasing power—pur-

[1] In drawing this general conclusion we must note the limitations of the data upon which it is based. It is difficult to measure accurately changes in retail prices and in living costs, because of the wide diversity of quotations and the importance of non-standardized products among retail goods. These difficulties are intensified as the period covered by the measurements increases. The two decades covered by the present records were marked by important changes in living habits, and in the character of the goods entering into the annual budget of the average consumer. Finally, many of the durable goods which were being bought in greater quantities by consumers had been greatly improved in quality. But in spite of these limitations upon the available measurements, the evidence of a general post-War advance in the cost of goods to consumers, as compared with pre-War standards, is very strong indeed. A great many pieces of evidence, relating to different markets and different activities, re-enforce one another in indicating a general advance in fabricational margins, and in construction costs. To these we must add the advance in taxes through which higher governmental expenditures were financed. The results appear in the prices charged final consumers for the goods they bought.

chasing power augmented by distinctive factors peculiar to the period of post-War prosperity.

Further questions of central importance remain, therefore. If, in 1936, pre-recession relations between consumers' goods at wholesale and retail and general commodity prices had been virtually re-established, was that enough to facilitate the movement of goods, in volume, into consumption and use? Or are we to judge from the earlier standards of reference, which indicate that 1936 prices to consumers for finished goods and for the goods and services that enter into ordinary household budgets remained at levels so high as to impede the maintenance of full employment and production in American industries? Definitive answers to these questions can be given only by the record, which is still to unfold. No one may say, in advance of the test of experience, whether pre-War group prices define relations that have significance today, or, indeed, whether pre-recession relations constitute a basis for the restoration of employment volume and the elevation of living standards. The economic system operates under diverse conditions, not under one set alone. Furthermore, comparisons of group prices, particularly those involving finished goods, are complicated by changing quality. But the questions raised are pertinent to a review of the economic situation in 1936. We may throw some light on them by a survey of the changes brought by recovery in the incomes and purchasing power of major consuming groups.

Purchasing Power of Consuming Groups

Adequately to measure the changes of the last several years in the purchasing power of consumers we should have a complete record of alterations in the volume and distribution of the national income. The available figures, while not all-inclusive, enable us to follow some of the general movements of the period. In doing so it will be advisable to distinguish relief and benefit payments and similar disbursements from income arising out of the normal productive and distributive processes of the economy.

The factors affecting the volume of purchasing power available to consumers over a stated interval are numerous, and are, of course, closely related to the circumstances conditioning productive processes. If we here seem to treat the purchasing power factors as independent, and trace the possible effect on production of changes in monetary incomes received, it is for convenience of exposition rather than because the spending operations of consumers are considered to be an independent force in the processes of economic life.

A general account of the changes brought by recession and depression in the income and aggregate purchasing power of American consumers has been given in Chapter III. We there noted declines from 1929 to 1933 of approximately 43 per cent in labor income, 38 per cent in property income, and 46 per cent in entrepreneurial income. The fall in total income paid out amounted to some 43 per cent. The decline in physical volume of consumers' goods produced and sold, over the same period, was less, of course. The prices paid by consumers were reduced somewhat, and the proportion of the national income expended for consumers' goods increased, as always in periods of depression. Making allowance for these factors, we estimated a decline of approximately 23 per cent in the actual purchasing power of consumers between 1929 and 1932; to 1933 the decline amounted to 25 per cent. Among the elements of this total, farmers and industrial wage earners suffered most severely. The total purchasing power of farmers, including expenditures for productive purposes, dropped by about 36 per cent, to 1932 (the low year for farmers); the aggregate purchasing power of farmers' net income, plus wages paid to farm hands, declined more than

55 per cent. (If account were taken of that portion of the farmer's living that comes directly from the farm in the form of home-grown produce, etc., the farmer's actual losses during the depression would not appear to be so heavy.) Industrial wage earners, for whom income also reached its lowest point in 1932, suffered a decline of from 45 to 50 per cent in aggregate purchasing power. Unemployment, as well as reduced hours and reduced wage rates, contributed to this loss.

The story is carried forward by the estimates of the United States Department of Commerce (Table 58.) Although monthly records show a pick-up after the low of early 1933, the total income figures for that year are below the level of 1932. Excessively poor conditions in the early months counterbalanced the gains of the later months. But 1934 and 1935 brought advances for practically all groups of income recipients (interest payments alone declined slightly). These gains, for certain producing groups, have been discussed in preceding chapters. Our present interest is in the broader changes of income, as these affected consumer purchasing power at large.

The gain from 1933 to 1935 in income paid out amounted to more than eight and one-half billion dollars, or 19 per cent of the 1933 total. Of this gain some six and one-half billions served to increase labor income (which here includes both wages and salaries), over one billion took the form of 'entrepreneurial withdrawals' (by farmers and other independent operators), while the remaining gain of almost one billion was divided between dividends and rents and royalties.

These gains left total income paid out, in dollars, approximately 32 per cent below that of 1929. Industrial wages proper fell much more—about 41 per cent—although total payments for personal services declined only 30 per cent. Work relief

TABLE 58

NATIONAL INCOME AND ITS ELEMENTS, UNITED STATES, 1929–1935

ESTIMATES OF NATIONAL INCOME PAID OUT, BY TYPES OF PAYMENT

	1929	*1932*	*1933*	*1934*	*1935*	*1929*	*1932*	*1933*	*1934*	*1935*
		(millions of dollars)					*(percentage of 1929)*			
Total income paid out	78,632	48,362	44,940	50,173	53,587	100.0	61.5	57.2	63.8	68.1
Labor income	51,487	30,920	29,420	33,528	36,057	100.0	60.1	57.1	65.1	70.0
Salaries (selected industries) [1]	5,663	3,387	3,048	3,250	3,417	100.0	59.8	53.8	57.4	60.3
Wages (selected industries) [1]	17,197	7,017	7,189	8,944	10,149	100.0	40.8	41.8	52.0	59.0
Salaries and wages (all other industries)	27,690	19,417	17,591	19,046	20,173	100.0	70.1	63.5	68.8	72.9
Work relief wages [2]			619	1,389	1,313					
Other labor income	937	1,099	973	899	1,005	100.0	117.3	103.8	95.9	107.3
Property income [3]	11,218	7,980	6,969	7,211	7,303	100.0	71.1	62.1	64.3	65.1
Dividends	5,964	2,754	2,208	2,549	2,830	100.0	46.2	37.0	42.7	47.5
Interest	5,104	4,975	4,592	4,569	4,422	100.0	97.5	90.0	89.5	86.6
Entrepreneurial withdrawals	12,503	7,992	7,306	8,052	8,701	100.0	63.9	58.4	64.4	69.6
Net rents and royalties	3,424	1,470	1,245	1,382	1,526	100.0	42.9	36.4	40.4	44.6

SOURCE: *Survey of Current Business*, July 1936, p. 16

[1] Includes mining, manufacturing, construction, steam railroads, Pullman, railway express, and water transportation.

[2] Includes pay rolls and maintenance of Civilian Conservation Corps enrollees and pay rolls of Civil Works Administration, Federal Emergency Relief Administration and Works Progress Administration work projects plus administrative pay rolls outside Washington.

[3] Includes net balance of international flow of property incomes.

wages, amounting to more than 1,300 million dollars in 1935, made up an appreciable portion of total labor income.

The declines in the purchasing power of the various groups of income recipients were smaller, of course, than the drops in money income, since the prices of goods purchased declined. A comparison of relative changes in the money income and the aggregate purchasing power of three such groups is afforded by the measurements in Table 59.

TABLE 59

LABOR INCOME, PROPERTY INCOME AND NET FARM INCOME, WITH ESTIMATES OF CHANGES IN PURCHASING POWER, 1929–1935

	1929	*1932*	*1933*	*1934*	*1935*
Labor income [1]					
Millions of dollars	51,487	30,920	29,420	33,528	36,057
Relative numbers	100	60	57	65	70
Cost of living	100	81	76	79	81
Index of purchasing power	100	74	75	82	86
Dividends and interest [2]					
Millions of dollars	11,218	7,980	6,969	7,211	7,303
Relative numbers	100	71	62	64	65
Estimated cost of goods purchased [3]	100	81	77	80	82
Index of purchasing power	100	88	81	80	79
Farm income					
Millions of dollars [cash income less current (operating) expenditures] [4]	6,084	1,734	2,871	3,728	4,632
Relative numbers	100	28	47	61	76
Cost of capital equipment and repairs and of goods purchased for family maintenance [5]	100	73	73	81	82
Index of purchasing power, cash income	100	39	65	76	93
Index of physical volume of farm products consumed on farms [6]	100	100	100	100	100
Index of purchasing power of cash income [less current (operating) expenditures] plus farm products consumed on farms [7]	100	51	72	81	94

TABLE 59 (*cont.*)

LABOR INCOME, PROPERTY INCOME AND NET FARM INCOME, WITH ESTIMATES OF CHANGES IN PURCHASING POWER, 1929–1935

Farm income (*cont.*)	*1929*	*1932*	*1933*	*1934*	*1935*
Millions of dollars (cash income less operating and capital expenditures) [4]	4,890	1,473	2,525	3,233	3,869
Relative numbers	100	30	52	66	79
Cost of goods purchased for family maintenance [4]	100	68	69	77	78
Index of purchasing power, net cash income	100	44	75	86	101
Index of physical volume of farm products consumed on farms	100	100	100	100	100
Index of purchasing power of net cash income plus farm products consumed on farms [8]	100	57	81	89	101

1 Including work relief wages, certain miscellaneous labor income (such as pensions), and the wages of farm hands. Original data published by the Department of Commerce (see *Survey of Current Business*, July 1936).

2 Including net interest on farm mortgages. These data are also those of the Department of Commerce.

3 Secured by averaging the cost of living index of industrial wage earners and an index of the prices of capital equipment and construction, with weights of 9 and 1 respectively (see National Bureau *Bulletin 59*, by Simon Kuznets, May 4, 1936, p. 24).

4 See Table 30.

5 Computed by the National Bureau from indexes published by the Department of Agriculture.

6 The data indicate that there was some increase during the depression in the volume of farm products retained for consumption on the farm. For the present purpose it seems well to lean towards the side of conservatism, and assume a constant volume of such consumption. If there were an increase, the indexes of real farm income would be higher than those given in Table 59.

7 Cash income weighted 6,084 and commodity income weighted 1,524. These weights are derived from the 1929 dollar values of the respective types of income.

8 Cash income weighted 4,890 and commodity income weighted 1,524. See footnote 7.

The magnitude of the decline in the national income from 1929 to 1932 has already been noted. The estimates in Table 59 indicate drops in real income of approximately 26 per cent for recipients of wages and salaries, 12 per cent for recipients of dividends and interest, and from 43 to 49 per cent for farmers. (The figure 49 relates to the decline in real income, including income spent for capital equipment and repairs; the figure 43 relates to real income after payment of costs of capital equipment and repairs. Operating costs are deducted from cash income in securing both figures.) The purchasing power of labor income began to increase in 1933; by 1935 the aggregate was only 14 per cent less than in 1929. The total real income of recipients of dividends and interest continued to decline; in 1935 it was 21 per cent less than in 1929.[2] Real farm income, both that which includes and that which excludes sums spent on capital equipment and repairs, climbed sharply from 1932 to 1933, and continued to advance, though at a lower rate, from 1933 to 1935. By 1935 the purchasing power of the net cash income of farmers, plus farm products consumed on the farm, approximately equaled the 1929 aggregate. The figure is smaller (94) if we include in the income of farmers sums spent on capital equipment and repairs.[3]

[2] These figures conceal quite divergent movements of the two elements of the total. Changes in the aggregate purchasing power of dividends and interest, separately, are shown below. In each case total money income has been divided by the index of estimated cost of goods purchased by these income recipients, as given in Table 59.

	Index of aggregate purchasing power				
	1929	*1932*	*1933*	*1934*	*1935*
Dividends	100	57	48	53	58
Interest	100	120	117	112	106

[3] It is difficult to prevent over-lapping and to secure truly comparable figures for the different economic groups represented in Table 59. In estimating the true profit and loss account of American farmers, rent and depre-

Various forms of emergency income added substantially to the purchasing power of consumers during recovery. These included unemployment relief from Federal and other sources, disbursements of the Civil Works Administration, the Federal Emergency Relief Administration and the Works Progress Administration, pay rolls of the Civilian Conservation Corps, pay rolls of projects financed by the Public Works Fund and the Reconstruction Finance Corporation, and rental and benefit payments to farmers. Relief payments proper, which included all the emergency items listed above except the last three, amount to some 300 million dollars in 1932, to about 900 million in 1933, and to almost 2,000 million in 1934. Such payments amounted to less than 1 per cent of the national income in 1932, about 2.2 per cent in 1933, and about 4.0 per cent in 1934. Total emergency income disbursed in 1934 amounted to approximately 5.2 per cent of the total national income. Relief disbursements continued at an accelerated pace in 1935. In that year relief payments

ciation charges, as well as the various current expenditures deducted in deriving the figures in Table 59, should be deducted from cash income. If this be done, the remaining cash income available as a return on farm operators' labor, capital and management is smaller than the net cash income given above. If this smaller figure be 'deflated' by an index of prices paid by farmers for goods used in family maintenance, and the result be combined with a measure of volume of farm products retained for consumption on the farm, we have still a third measure of the 'real income' of farmers. The index numbers follow:

1929	*1932*	*1933*	*1934*	*1935*
100	41	70	82	99

The deflated cash figures (plus farm products consumed on the farm) which are given in Table 59 are probably more directly comparable than are these with the income figures for other economic groups. But in a proper accounting of the position of American farmers depreciation charges should be included. Even when this is done, the 1935 position of farmers represents a great advance over 1932 and substantial equality with the pre-recession level.

other than rental and benefit payments to farmers came to approximately 2,400 million dollars. Payments to farmers totaled 498 millions. Total emergency income amounted to about 5.4 per cent of the national income paid out. Such income continued to provide a substantial portion of the buying power of American consumers.[4] It is a significant fact that although national income increased substantially from 1933 to 1935, emergency disbursements increased more rapidly.

Output of Consumption Goods

Records of the actual production of goods ready for consumption provide us with another means of estimating the degree of recovery in the purchasing power of consumers. Although the available records do not include all goods and services for which consumers' incomes are spent, we have fairly comprehensive index numbers of the output of manufactured consumers' goods. These are given by years in Table 60, with comparable index numbers of the output of manufactured producers' goods.

While the output of goods for capital equipment and construction materials was declining 68 per cent, from 1929 to 1932, the volume of manufactured consumers' goods produced fell 30 per cent. The latter figure is probably somewhat greater than the actual decline in the total purchasing power of consumers. Important classes of commodities not passing through a manufacturing stage and all types of services are omitted, of course.[5] The next three years brought

[4] To the extent that the methods of financing these relief payments by governmental agencies have reduced current purchases by other consumers, the relief payments listed above represent no net addition to the purchasing power of consumers at large.

[5] The output of non-manufactured consumption goods is measured by the

TABLE 60

PRODUCTION OF MANUFACTURED GOODS, 1929–1935[1]

	1929	*1932*	*1933*	*1934*	*1935*
Goods destined for human consumption	100	70	77	79	91
Capital equipment and construction materials	100	32	38	46	56
Producers' fuels	100	69	73	79	86
All manufactures	100	57	63	68	78

[1] I am indebted to my associate Charles A. Bliss for these index numbers. They are constructed from data of the Census of Manufactures. Figures for 1932, 1934 and 1935 are estimates based on Census data. See "Production in Recession and Recovery", *Bulletin 58,* National Bureau of Economic Research. The reader should note that these index numbers are based upon a somewhat larger sample than are the index numbers used in deriving measurements of changes in prices and costs in manufacturing industries. In 1933 data from 110 industries were used by C. A. Bliss, as against 82 in the other production index.

an increase of 30 per cent in the volume of consumers' goods manufactured, raising it to within 9 per cent of the 1929 level. The index exaggerates the advance, as it did the decline, but there is here clear evidence of substantial improvement in the general standard of living. The processes of recovery, plus the emergency expenditures of the government, had brought the aggregate volume of manufactured consumers' goods close to the pre-recession high and, in fact, above the level of ten years ago. The economic significance of this advance is of course clouded somewhat by the presence of substantial relief payments in consumer income. The gain from 1932 to 1935 in the production of goods for capital equipment and construction materials was greater than for consumers' goods, but the 1935 output of non-consumption goods was much lower, relatively to earlier standards.

index numbers below. These indexes, constructed by the National Bureau, include the production of fruits and vegetables, milk, poultry products, fish, and coal and other fuels.

1929	*1932*	*1933*	*1934*	*1935*
100	103	102	104	105

These shifts may be followed in greater detail over part of the period of recovery by means of the monthly records of the output of manufactured consumers' goods.[6] The relatively steady gains since early 1933 in the production of consumers' goods stands in contrast to the extreme fluctuations among producers' goods. By December 1935 the output of manufactured consumers' goods was only 6 per cent below the July 1929 peak. Excluding automobiles, the production of which was subject to special influences in the closing months of 1935, the index stands at 90, 10 per cent below the base month. With or without automobiles, the production of consumers' goods exceeded the 1923–25 average, and was within striking distance of the pre-recession volume.

	July 1929	*Feb. 1933*	*July 1933*	*Oct. 1933*	*May 1934*	*Sept. 1934*	*Dec. 1934*	*Dec. 1935*
Consumers' goods, manufactured	100	68	86	73	81	84	85	94
Producers' goods, manufactured	100	39	77	53	62	43	58	80
All manufactures	100	49	80	60	69	58	67	85

The Consumer in Recovery

In this chapter we have surveyed changes of two general types affecting the flow of goods to final consumers—changes in the prices of goods bought by consumers and in the volume of purchasing power available to important economic groups. The findings in respect of price movements indicated that consumers in 1936 were approximately where they were in 1929. The worst disadvantages of the depression had been corrected, in so far as we may judge from group averages, and the prices of consumers' goods stood on a general pre-reces-

[6] Index numbers constructed by Y. S. Leong; published in the *Journal of the American Statistical Association,* June 1935, pp. 371–2. Dr. Leong has courteously provided us with preliminary figures for 1935.

sion parity with the prices of commodities in general. But pre-recession parity represented a position of substantial disadvantage for the consumer, with reference to pre-War relations. We have seen that the post-War expansion, on the price side, was marked by low returns to producers of raw materials, high fabrication costs, high wages, and high prices of capital goods and goods ready for final consumption. It was this situation, and nothing better from the point of view of the consumer, that had been restored by 1936. The prices at wholesale of consumers' goods as a broad class were 33 per cent higher than in 1913. The cost of living of industrial wage earners was 43 per cent higher. These figures are to be contrasted with the general average of wholesale prices. The index of the National Bureau, which is comparable with the consumers' goods indexes cited above, was 22 per cent higher in June 1936 than 1913. The index of the Bureau of Labor Statistics was only 14 per cent higher. It is clear that all the major elements that enter into the budget of the final consumer were higher in 1936 than in 1913, if we accept the index of general prices at wholesale as a suitable gauge of changes in monetary values. (Some individual items were lower of course, and some others had undergone quality changes that meant actual price reductions to the final buyer.) We shall turn shortly to inquire whether the factors that supported expansion under these conditions in the decade of the 'twenties existed in 1936.

In tracing the movements of income and purchasing power we noted a decline from 1932 to 1933 (on an annual basis), although the purchasing power of farmers and of labor picked up. By 1935 appreciable improvement had been recorded. Rising incomes were the rule among wage earners and salaried workers, dividend recipients, farmers and those drawing incomes from various other basic industries. Part of the increase was offset by rising prices but most groups scored appreciable gains in actual purchasing power. Summarizing estimates based upon the available data (estimates which are rather rough for some groups) we have the following record of changes in aggregate purchasing power.[7] For all but the first

	APPROXIMATE ADVANCE IN AGGREGATE PURCHASING POWER *1932 to 1935* (*per cent*)	APPROXIMATE DEFICIENCY OF AGGREGATE PURCHASING POWER IN 1935, IN COMPARISON WITH 1929 (*per cent*)
Wage earners and salaried workers	+16	—14
Recipients of interest and dividends	(net loss)	—21
Farmers		
Cash income less current (operating) expenditures, plus farm products consumed on farm	+84	—6
Net cash income (cash income less operating and capital expenditures) plus farm products consumed on farm	+77	(none)
Gross operating income plus benefits	+36	—13
Mineral producers		
Gross operating income	+20	—27
Producers of raw forest products		
Gross operating income	+46	—46
Railways		
Gross operating income	(net loss)	—35
Construction industries		
Gross operating income	+21 (*1933 to 1935*)	—63

7 The changes relating to wage and salaried workers, recipients of property income and the first two series for farmers are from Table 59. The measurements of changes in the gross operating income of farmers are based on Table 29. They include farm products consumed on the farm. The gross income of mineral producers is the total value of mineral production in the United States, as given by the U. S. Bureau of Mines (*Minerals Yearbook*, 1936). Relatives measuring changes in gross income derived from forest products are secured from National Bureau price and production index numbers, for raw forest products. Railway gross operating income is based on freight and

three groups purchasing power is measured in terms of general commodities at wholesale. The incomes of wage earners are deflated by cost of living; of farmers by prices paid by farmers; of recipients of interest and dividends by an index secured by averaging living costs and the costs of capital equipment and construction.

For wage and salaried workers and recipients of interest and dividends the estimates relate to the purchasing power of net income; for farmers estimates of net and gross income are given; for the other groups the figures relate to gross operating income. Only the net income data measure consumer purchasing power directly. The deflated gross income measurements for different industrial groups provide important supplementary information concerning the fortunes of producing groups and, indirectly, concerning the flow of purchasing power to consumers through these industrial channels.

The rather scattered figures given in the table do not cover mutually exclusive classes, nor do they provide a general coverage of all consuming groups, but they give a reasonably good picture of the gains of recovery. These gains between 1932 and 1935 were enjoyed by practically all elements of the economic system. Improvements varied in degree, as had the declines of the preceding recession. Because the points from which recovery began were exceptionally low, for some groups, the percentages measuring gains in purchasing power up to 1935 are hardly comparable. Thus the gain of 21 per cent recorded for the construction industries is measured from a very low level indeed; in real im-

passenger revenues of Class I railroads (Interstate Commerce Commission). Values of contracts awarded in 37 states (F. W. Dodge Co.) were used in estimating the gross income of construction industries.

portance it is far less significant than the gain of 16 per cent in the purchasing power of wage earners and salaried workers. The entries in the last column, which measure the deficiency of aggregate purchasing power in 1935, relatively to 1929, for the several groups, provide bases for properly evaluating these gains.

The production of consumers' goods reflected the improvement in purchasing power among the various consuming groups. The output of one class of such products, manufactured goods intended for human consumption, increased 30 per cent from 1932 to 1935, but remained in 1935 about 9 per cent less than in 1929.

This recovery carried the output of consumers' goods to a level much higher, relatively to 1929, than producers' goods in general or capital equipment in particular. In 1935, when the volume of manufactured goods intended for human consumption was 91 per cent of that of 1929,[8] the production of manufactured goods intended for use as capital equipment and in construction was but 56 per cent of the 1929 output. Of course, the preceding decline had been much greater in the capital goods industries. It is notable, however, that the relatively disadvantageous position into which the heavy industries were thrown by the recession persisted, to a degree not experienced in similar periods in the past.

The rise in consumer income and the revival of consumers' goods industries since the depression low of 1932–33 are of particular interest because of the emphasis placed on the

[8] This index shows a net drop in production from 1929 to 1935 that was notably less than the decline in consumers' incomes, corrected for price changes. Expenditures for services of a luxury or semi-luxury type, for housing accommodations and for a variety of non-standardized goods were curtailed more drastically than those for the simpler consumers' goods entering into the index here utilized.

restoration of purchasing power in the Administration's program of recovery. An expansionist program on the monetary side (including a reduction in the gold content of the dollar and a corresponding broadening of the basis of credit, open market operations and large loans to financial organizations) has been accompanied by heavy public works and relief expenditures entailing continuing budgetary deficits. Not all these measures were aimed directly at the increase of consumer purchasing power, it is true, but that was a major objective. Pointing immediately at the expansion of consumer income were the wages and hours provisions of the industrial codes. It was hoped that these provisions would lead to larger payments to wage earners without material increase in costs or prices. The increase in prices was to be prevented by higher efficiency and by the lower overhead charges, per unit, that would result from an increase in sales and in output under the stimulus of the higher purchasing power of wage earners. Finally, proceeds of processing taxes were to be used in maintaining or expanding the purchasing power of farmers complying with the crop restriction program of the Administration.

The effects of the monetary measures on the status of consumers are, of course, impossible to appraise, for they were manifest in indirect ways. The departure from the gold standard and subsequent reduction in the gold content of the dollar relieved deflationary pressure on the price system and contributed to the price advance of 1933. The resulting business relief was a substantial, though indirect, aid to the consuming public. In creating the potentialities of a considerable credit expansion this move had a further connection with consumers' interests, but as regards the volume of credit actually put to business use these potentialities were tardily realized.

Pay rolls of projects financed from public works funds and from funds of the Reconstruction Finance Corporation constituted direct additions to the incomes of final consumers, but in relative magnitude these amounts were not impressive. Total funds from these sources amounted to 33 million dollars in 1933, 326 million in 1934, and 495 million in 1935. By far the largest additions to consumer incomes, from governmental sources, came from Federal unemployment relief. These great outlays played an important part in stimulating retail sales and the production of consumers' goods of all sorts.

The effects on aggregate consumer purchasing power of the various provisions of the codes enacted under the National Industrial Recovery Act were mixed. As we have seen in Chapter VI the money incomes of wage earners in manufacturing plants increased 42 per cent during the period of operation under the industrial codes (June–July 1933 to April–May 1935). Wage rates were advanced and total pay rolls expanded as results of the combined influence of the new codes and of changing business conditions. The effects of the codes on the income of employed labor were salutary. But we have called attention to other features of the period of code enforcement. Fabrication costs in general and labor costs in particular rose sharply. Aggregate production of manufactured goods and total employment, in man hours, made no net gains under the codes. At the end of the period of code enforcement real labor costs were actually higher than in 1929, although industrial productivity had increased as much as 25 per cent. The wages and hours provisions of the codes may have contributed to a rise in the pay rolls of manufacturing plants, but higher costs appear to have retarded the movement towards larger output and increased employment that had prevailed during the first push of recovery, prior to the adoption of the codes. The codes may well have had salutary effects in other directions, but they apparently served to deprive consumers at large of the benefits from the substantial gains in productivity that had been made after 1929; these benefits were reaped largely by those engaged in the manufacturing process.

The incidence of processing taxes levied under the Agricultural Adjustment Act was probably diverse. In so far as they fell on consumers, through the raising of prices, there was a transference of purchasing power from consumers to the agricultural producers who received the benefit payments. A somewhat similar shift would result from absorption of the tax by processors through reduction of profits. For certain commodities prices received by farmers were probably reduced, as a result of the processing tax.[9] Benefit payments to farmers financed in this fashion may involve a personal transference of purchasing power, but no net addition to the income of the group.

As in all major economic movements, consumers occupied a position of strategic importance in the revival of 1933–36. Indeed, special circumstances have given added significance to their role in the movements of the last several years. A program of recovery involving maintenance (and advancement) of wages and reduction of hours, price-fixing, curtailment of output and the levying of processing taxes falling in part at least on the consumer, obviously tends to raise costs and prices, and so to reduce consumer purchasing power. Of critical importance is the question whether the additions to consumer income arising from such a program and from the normal processes of recovery are sufficient to offset the adverse effects of higher costs and prices. Delicate matters of timing and balance are here involved, as always in recovery from a severe depression. In the 1933–36 situation conscious attempts

[9] Cf. "The Incidence of the AAA Processing Tax on Hogs", Geoffrey Shepherd, *Journal of Farm Economics,* May 1935, pp. 321–34.

at regulation constituted a novel element in the readjustments of revival.

Irregular recovery, extending over three years, had by 1936 brought gains to consumers on several fronts. The average prices of consumers' goods, both at wholesale and retail, had been reduced, relatively to the general level of prices. Reviving activity had brought increases in the national income and corresponding gains in the purchasing power of major consuming groups. Income arising from productive operations was swelled by heavy relief and benefit payments of the Federal government, and by relief payments of states and cities. These various forces had brought the advances noted in preceding pages. The gains were considerable, and were continuing, but they fell short of restoring the aggregate real incomes that consumers had enjoyed prior to the recession.

Among the many factors tending to curtail business activity two were particularly pertinent to the problem of recovery in the output of consumption goods. One was the delayed revival of the capital goods industries, including general construction. The percentage of recovery from the low point of 1932–33 was considerable, of course, but even this did no more than restore the production of capital goods in 1935 to about 56 per cent of 1929. It was in these industries that the bulk of the unemployment persisted. It was here that deficiencies of wage, salary and dividend disbursements continued in most severe form. An economy dependent upon activity in the heavy industries for the employment of a large part of its labor force and for a large proportion of the current income of consuming groups suffered from the tardiness of their recovery. Not until the second half of 1935 was there a convincing revival of activity in this area. This advance gave additional stimulus to the recovery of industries producing consumers' goods.

Secondly, and of high importance with reference to the long term movements of American economic life, was the persistence of a high level of prices for consumers' goods, at wholesale and retail. The relations of the 'twenties had been restored, roughly, by early 1936, but these are suspect, as perhaps representing an abnormal and unstable situation. There is greater reason for doubts on this score because various special aids that buttressed the market for consumers' goods during the expansion of the 1920's had lost much of their force during the recession and depression. Foreign buying was no longer supported by American loans. Speculative profits suffered a vast shrinkage after 1929. New buying power contributed by the expansion of consumer credit played a less important role in the first two phases of recovery than it had prior to 1929. In default of these largely adventitious aids, restoration of a volume of consumer buying equal to that of the pre-recession era, in view of the existing price situation, faced very real difficulties.[10]

The expansion of consumer buying from 1933 to 1936, despite these obstacles, was substantial, attesting the strength of the underlying recovery. Former operating conditions had been restored or adaptation to new conditions effected in

[10] The comparison of price movements among different commodity groups over one or two decades is complicated by quality changes. These changes are almost certain to be dissimilar, as among different classes of commodities, and thus distort comparisons based on prices alone. Consumers' goods in general probably improved in quality over the two decades following 1914. The consumer was getting more in 1936 than in 1914, in the purchase of a given unit of goods. We do not take account of this gain in the price comparisons in the text. On the other hand, we may approximate with reasonable accuracy changes in the number of units the consumer could buy with a given income. It is in this sense that we measure changes in aggregate consumer purchasing power. The real income of a given consuming group may have increased more than the estimates indicate, because each unit purchased today has a longer life or gives greater satisfaction than the unit bought in 1914. (Of course, not all changes in quality are improvements. Changes in the direction of shoddy and less durable goods are not unknown.)

many industries. Yet this survey of the expansion of consumer purchasing power and the price movements of consumers' goods during recovery ends on conflicting notes. By 1936 the relatively high prices of consumers' goods had been reduced and substantial gains had been scored in the incomes and buying power of important consuming groups. But the prices of finished goods remained high, in relation to other prices and to the level of consumers' incomes, by all standards except those of the pre-recession boom. Moreover, part of the expansion of purchasing power was apparent, rather than real, since it represented a transference rather than a real increase of buying power. Other elements of new buying power were temporary, arising from relief payments, and could not be taken to indicate substantial recovery. Finally, considerable deficiency of purchasing power persisted and living standards remained at unsatisfactory levels. These conditions indicate that no suitable adjustment had been effected between costs, prices and consumer incomes. We shall return in the closing chapter to a consideration of problems growing out of these circumstances and to a general review of the consumer's position.