" Oh, when will these hardships cease ? When shall we cease to be miserable creatures, all we who have strong young arms to work and earn our living like men ? When shall we hear again the factory buzzers announcing that there is work for all ? When, oh when ?

" Oh, work, work, blessed work ! "

Economic Depression and Wage Policy

The Taylor Society of New York — an international society to promote the science and the art of administration and of management, whose object is to carry on the work begun by Taylor — holds the opinion that the only technique of progressive stabilisation, either for the unit enterprise or for collective industry, is scientific management ; for this reason it is concerned both with the problems of managing the individual enterprise and with the problems of collective management of all industry. A recent number of its *Bulletin* contained a series of studies [1] which throw an interesting light on some essential aspects of the present state of economic disorder ; their principal considerations are summarised below.

The Movement of Wages during the Depression

From the second quarter of 1929 to the second quarter of 1932 the number employed in manufacturing industries in the United States declined by 40 per cent., and total payrolls by 60 per cent. The greater decline in payrolls is due to the decrease in hourly wage rates [2] and in hours worked per worker. Over the same period average weekly earnings declined by 33 per cent. It is further estimated that as compared with 1929 the decrease in the total wage and salary payments from all sources was 15 per cent. or 8½ milliard dollars in 1930, and 31 per cent. or 18½ milliard dollars in 1931, or a total decrease of 27 milliard dollars in the two years.

In the autumn of 1932, although there were then signs of a slight improvement in the situation, many industrialists and economists believed that a new recession was possible within the next six or eight months, and highly probable within two years ; they based this opinion chiefly on the obvious fact that existing purchasing power was inadequate to take up the annual increment of production.

[1] *Bulletin of the Taylor Society* (New York), Oct. 1932, especially pp. 169-184 : " Purchasing Power and Wage Policy : The Relation Thereto of Recent Changes in Payrolls, Hours and Earnings in the United States ", by Emmet H. Welch, Research Associate, Industrial Research Department, University of Pennsylvania ; and also pp. 165-168 : " The American Consumer Market : Wages and Salaries as Buying Power — The Paradox of Profitless Prosperity ", adapted from a study in *The Business Week* by Virgil Jordan and Robert R. Doane.

[2] From 1930 to 1932 average earnings per hour decreased by about 8 per cent. Average wage rates undoubtedly fell considerably more, but the fact that in a period of depression it is the lower paid workers that are generally dismissed first tends to prevent average earnings from falling.

THE MOVEMENT OF WAGES DURING THE PERIOD BEFORE THE DEPRESSION

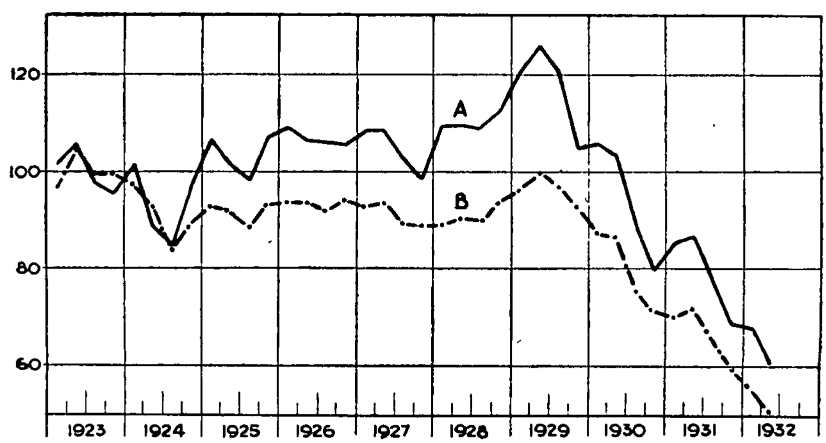
It may be asked whether a partial explanation of the depression may perhaps be found in certain changes that occurred in the relations between wages and industrial productivity during the period immediately preceding it.

The comparison offering the most interest for the determination of the importance of the purchasing power of wages in general is the relation, not of wage rates, but of the volume of wage payments, to the total volume of goods produced. For the United States, the comparison (shown in the following table and diagram) of the Federal Reserve Board's index of physical production with the index of real payrolls (i.e. payrolls divided by cost of living) shows a divergence between the two curves which is very wide from 1923 to 1929, diminishing from the middle of 1929, but still of some importance at the end of the second quarter of 1932.

Year	Index of physical production in the United States	Index of real payrolls in the United States
1923	100.0	100.0
1924	92.8	90.6
1925	103.3	91.5
1926	106.7	93.2
1927	104.4	90.9
1928	110.1	90.5
1929	117.8	96.3
1930	94.2	80.0
1931	79.1	66.5
1932 : 1st qr.	67.8	56.0
2nd qr.	59.9	50.1

FIGURE 1. INDEXES OF PHYSICAL PRODUCTION AND REAL PAYROLLS IN MANUFACTURING INDUSTRIES IN THE UNITED STATES

(Base: 1923 = 100)



A = Physical production. B = Real payrolls.
Source: *Bulletin of the Taylor Society*, Oct. 1932, p. 173, Chart IV.

The difference between the two indexes represents a number of factors : (1) production, replacement, or maintenance of capital goods ; (2) accumulated stocks of consumers' goods ; (3) instalment and credit sales ; (4) export balances ; (5) consumers' purchasing power other than wage payments. Capital goods represent future consumers' goods *in posse* ; they have clearly to be reckoned with in studying the equilibrium of the market in future periods of time. The fifth factor—income other than wages—is the only one that would enable production to proceed continually at a faster rate than wage payments. But in an industrial system based on mass production and mass consumption too much importance should not be attached to purchasing power of this kind.

Another comparison, for which data are provided by the Census of Manufactures, is that between wages and the component parts of the value of manufactured products. It will be found that broadly speaking, whilst before and even during the war the relation of wages to overhead and profits remained about the same, from 1923 onwards the value added by manufacture and overhead and profits increased rapidly, while the total wages paid remained fairly steady.

INDEX NUMBERS OF WAGES AND OF COMPONENT PARTS OF VALUE OF MANUFACTURED PRODUCTS

(Bases : pre-war : 1899 = 100 ; post-war : 1914 = 100)

Year	Wages	Cost of materials, supplies, fuel, and power	Value of product	Value added by manufacture	Profits and overhead
1899	100.0	100.0	100.0	100.0	100.0
1904	130.0	129.3	129.7	130.3	130.5
1909	170.7	184.7	181.2	176.6	180.7
1914	202.6	218.4	212.3	204.1	205.1
Total	603.3	632.4	623.2	611.0	616.3
Average	150.8	158.1	155.8	152.8	154.1
1914	100.0	100.0	100.0	100.0	100.0
1919	257.2	260.7	258.6	255.5	254.3
1921	201.6	177.3	181.9	188.8	179.5
1923	270.7	243.1	252.5	266.2	263.0
1925	263.8	251.6	261.4	275.8	284.4
1927	266.8	246.3	261.6	284.1	296.7
1929	277.1	261.8	285.5	320.3	351.4
Total	1637.2	1540.8	1601.5	1690.7	1729.3
Average	233.9	220.1	228.8	241.5	247.0

Lastly, the comparison (shown in the following table and diagram) of the changes during the period just before the depression in the relations between the total volumes of wage payments in manufacturing industries, of dividend and interest payments, and of new capital issues makes it easier to understand why in recent years productive capacity has outrun the ability to consume, mass consumption being in fact largely financed out of wages and salaries.

INDEXES OF CAPITAL RETURNS, CAPITAL EXPANSION, AND LABOUR RETURNS IN THE UNITED STATES

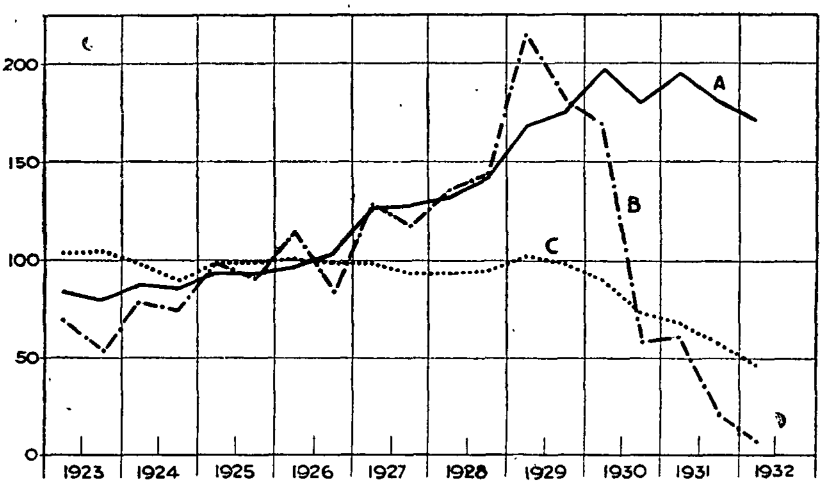
(Base : 1926 = 100)

Year	Dividend and interest payments [1]	New corporate capital issues [2]	Total real payrolls in manufacturing industries
1923	81.6	62.2	107.4
1924	87.4	76.2	97.4
1925	93.0	94.2	98.4
1926	100.0	100.0	100.0
1927	126.8	123.8	97.7
1928	137.2	139.6	97.2
1929	172.8	198.4	103.4
1930	188.0	113.6	86.0
1931	187.3	40.4	71.4
1932 : 1st qr.	171.6	7.1	60.2

[1] Based on data compiled by the *New York Journal of Commerce.*
[2] Based on data compiled by the *Commerce and Financial Chronicle.*

FIGURE 2. INDEXES OF CAPITAL RETURNS, CAPITAL EXPANSION, AND LABOUR RETURNS IN THE UNITED STATES

(Base : 1926 = 100)



A = Dividend and interests. B = New capital issues.
C = Wage payments (manufacturing).

Source : *Bulletin of the Taylor Society,* Oct. 1932, p. 175, Chart V.

THE RÔLE OF WAGE POLICY IN PROMOTING RECOVERY

There are two contradictory theses in the field :

(1) The necessities of competition oblige industries and nations to reduce their costs — and therefore wages — by an amount corresponding to the fall in selling prices. The supporters of this thesis

generally emphasise the production rather than the consumption side of the national economy.

(2) As the insufficiency of consumers' purchasing power is an important cause of the depression, recovery is to a large extent dependent on the maintenance or expansion of this purchasing power.

The aim in view in the following paragraphs is not to reach definite conclusions on one side or the other, but merely to offer a contribution to the study of the question in the hope that it may be useful.

(1) The first thesis seems to be based on the following argument : a sharp fall in wages would result in a rapid decline in costs, which would in turn result either in a further decline in prices, leading to increased demand and hence to greater employment, or in an increase in prospective profits, leading to increased production and hence to greater employment.

To this it may be objected that the only effect of a reduction in all the elements of the cost of production proportional to the fall in prices would be to re-establish the relations formerly existing, which presumably helped to provoke the depression ; that experience shows that a fall in the costs of production does not lead to a corresponding fall in retail prices (since the middle of 1929, in fact, wholesale prices have fallen twice as much, relatively, as the cost of living) ; and that even if this happened, there is no assurance that demand would increase in proportion to the decrease in prices (the demand for many goods being very inelastic, prospective purchasers having a tendency to postpone their purchases in the hope of a further fall, etc.). It follows that it is very doubtful whether reduced wage rates would increase demand, and hence payrolls, by as much as payrolls would be decreased by the reduction in wage rates. If, on the other hand, we assume that the benefit of the reduction in wage rates is retained by the employers in the form of an increase in their profits, which would evidently tend to encourage production, the question to be answered is whether the additional goods produced could be sold.

In fact, as we have seen above, during the period immediately preceding the depression (1923-1929) the part of the value of manufactured products represented by profits and overhead increased more rapidly than wages, but with no resulting improvement in the economic situation. Productive activity increased with great rapidity, and the resulting vast quantity of products placed on the market was met by the inadequate purchasing power of the masses.

(2) According to the second thesis, the small incomes — and consequently wages — are of dominant importance for the consumption of goods in an industrial system based on mass production. Large incomes, on the contrary, are for the most part reinvested in capital goods, or are used to buy luxury products (which require less industrial equipment and labour), and so do little to promote consumption. The statistics showing the distribution over different groups of the total domestic consumer expenditure in the United States in 1929 are very striking. They show that the recipients of less than $3,000 a year

spent 67.27 per cent. of the total, the proportion rising to 78 per cent. if incomes up to \$5,000 are included. From the same point of view the fact that too large a share of the wealth and income of the country is concentrated in the hands of a relatively small part of the population is considered a serious drawback. Reference to the movement of dividend and interest payments compared with total payrolls described above will show that during the period immediately preceding the depression there was a tendency for this concentration to be pushed still further, and that wages are becoming less and less able to absorb a much increased volume of production.

The study in the *Bulletin* points out that in the present industrial system, based as it is on mass production and mass consumption, an essential condition for mass production is mass consumption; from this the conclusion is drawn that the only alternative to increasing the purchasing power of the masses (i.e. increasing distribution to the consumer, " the stabiliser of our economic society ") is to resign ourselves to a low standard of living for the masses, and look for a more restricted production of luxury goods.

Labour in British Malaya in 1931

Recently published Government reports for British Malaya and the decennial Census taken on 1 April 1931 [1] give an opportunity of surveying the labour situation in these tropical territories, where the chief products (rubber, tin) have been particularly affected by the world depression.

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[1] *Straits Settlements Government Gazette*, 12 Aug. 1932 : The Foreign Trade of Malaya, 1931 ; Annual Report on the Working of the Labour Department for the year 1931 ; *Idem*, 30 Sept. 1932 : Report on the Social and Economic Progress of the People of the Straits Settlements for the year 1931 ; Report of the Department of Agriculture, Straits Settlements and Federated Malay States, for the year 1931.

Federated Malay States Government Gazette, 20 May 1932 : Report of the Secretary for Chinese Affairs for the year 1931 ; *Idem*, 4 June 1932 : Report on the Administration of the Mines Department and on the Mining Industries for the year 1931 ; *Idem*, 17 June 1932 : Report on the Working of the Labour Department for the year 1931 ; *Idem*, 12 Aug. 1932 : Pahang, Perak and Selangor Administrative Reports for the year 1931.

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