PREFATORY NOTE

From the beginning of their efforts to explain business crises men have speculated much about the rôle played by "consumption." In the early nineteenth century, when the factory system was spreading from one industry to another, many investigators held that "power to consume" was expanding less rapidly than "power to produce." For this reason, they said, markets became "glutted" every few years with goods which people had made, but could not buy. Whether they diagnosed the trouble as "under-consumption" or as "over-production" was a matter of phrase making.

This problem has not lost its interest in the hundred years since Sismondi and Malthus discussed it. In modern theories of business cycles one of the critical points is to account for the recurrent development of paradoxical conditions in which the community seems to suffer want because it has produced superabundant wealth. Many explanations have been offered. Oversaving, ill-balanced investments, the long period required for the building of industrial equipment, changes in the purchasing power of different classes produced by the expansion of bank credit, "competitive illusion," the diminishing utility of additions to the supply of consumers' goods, a deficiency of incomes disbursed in comparison with the value of goods sent to market—these catchwords may suggest some of the hypotheses which, singly or in combination, have their advocates at present.

All of these explanations are plausible, and perhaps no two are incompatible with each other. But our knowledge of business cycles is most unsatisfactory so long as it consists of an unsystematized collection of hypotheses which are plausible rather than proven. The present need is for testing every explanation to find how well it accords with the relevant facts. Such testing requires close study of the inter-relations among the fluctuations of all the processes involved. To study these inter-relations closely, we must have measured observations, covering a wide range of activities, made at brief intervals, and continued for periods long in proportion to business cycles.

Hence the theoretical significance of the recent progress in compiling and analyzing economic statistics. A decade ago we could compare the fluctuations of prices of commodities at retail and wholesale, of raw materials, producers' and consumers' goods, of stocks, and of labor; we had statistics concerning the output of certain staples; our data relating to railway transportation, imports and exports, the currency, banking, clearings, discount rates, bond yields and bankruptcies were relatively abundant, and we had fragmentary returns regarding numerous other processes. But concerning the process which is supposed to control all business operations in the last resort—the process of distributing goods to consumers—we had scarcely any reliable data. And at that time the technique of analyzing time series in such fashion as to segregate cyclical fluctuations from secular trends and seasonal variations, and of measuring the relations among the cyclical fluctuations of different processes, had been applied to but few series.

Within the past ten years, this technique has been improved in various ways and used widely. Not less important are the accessions to the list of economic processes covered by statistics. We now have index numbers not only of prices, but also of physical production and volume of trade; data concerning employment have been substituted for percentages of men out of work, and supplemented by pay-roll disbursements; our manufacturing censuses are taken every two instead of every five years; we have gained our first dependable knowledge of the turnover of deposits subject to check; we have better estimates of annual income. This list is far from complete; but it is safe to say that among all the accessions none is more valuable to men of affairs and economists than the data concerning volume of sales at retail and wholesale, which the Federal Reserve Banks have been gathering month by month since 1919.

Supplied with all these new data, and equipped with a more powerful technique, the students of business cycles can attack their old problems with better chances of success than their predecessors enjoyed. But such work calls for a combination of interests and of skills which is rare. A few writers upon the theory of business cycles have made statistical inquiry an organic part of their work—notably Professors Henry L. Moore and Alvin H. Hansen—; but most theorists content themselves with occasional citations of simple tables and charts. Few of the business-cycle statisticians, on the other hand, exhibit an interest in theoretical issues. There is need of workers like Dr. Kuznets, who uses analytical methods to make an especially significant body of new data yield insight into a problem which has been debated with little gain for more than a hundred years.

The data concerning the sales of department stores, chain stores of various kinds, mail-order houses, and wholesale establishments, which the Federal Reserve Banks began to collect in 1919, were interesting to business men from the first month of publication. But the reports had to accumulate for several years before they could show much about business cycles. Even now that they cover two cycles, the conclusions which they suggest must be regarded as tentative. Yet the process to which they relate is so fundamental that we should inquire without more delay what they can teach us.

Dr. Kuznets is the first to essay this task at large. He has eliminated the secular trends and seasonal variations of his series as best he could with materials covering but a few years.

He has divided the dollar-volume of sales by appropriate index numbers to approximate changes in the physical quantities of goods distributed. He has compared retail sales with wholesale, and both with manufacturing output, so far as the data permit. He has gone back to the disbursement of incomes of various types to consumers. And he has faced the difficult problem of accounting for the differences in the cyclical fluctuations which seem to be characteristic of these several processes—the flow of incomes to individuals, the manufacture of consumers' goods, purchasing by retailers, and purchasing by consumers.

Explorations of new territory, conducted with spirit and skill, are fascinating ventures, whether the areas covered be barren or promising. Any one who follows Dr. Kuznets' trail will gain for himself some of the pleasures of discovery. For those concerned with retail or wholesale trade, there must be much in this record which an economist sees but dimly. For men interested in the study of business cycles I can speak more confidently. Dr. Kuznets' investigation is the type of work which stimulates scientific activity:—it shows us how to deal more efficiently with a fundamental problem.

WESLEY C. MITCHELL.