SOCIAL ASPECTS OF THE BUSINESS CYCLE

Dorothy Swaine Thomas

ROUTLEDGE LIBRARY EDITIONS: BUSINESS CYCLES

ROUTLEDGE LIBRARY EDITIONS:
BUSINESS CYCLES

Volume 7

SOCIAL ASPECTS OF THE BUSINESS CYCLE

This page intentionally left blank

SOCIAL ASPECTS OF THE BUSINESS CYCLE

DOROTHY SWAINE THOMAS

Routledge
Taylor & Francis Group
LONDON AND NEW YORK

First published in 1925

This edition first published in 2015
by Routledge
2 Park Square, Milton Park, Abingdon, Oxon, OX14 4RN

and by Routledge
711 Third Avenue, New York, NY 10017

Routledge is an imprint of the Taylor & Francis Group, an informa business

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-138-85286-0 (Set)
eISBN: 978-1-315-71360-1 (Set)
ISBN: 978-1-138-85543-4 (Volume 7)
eISBN: 978-1-315-72033-3 (Volume 7)

Publisher's Note
The publisher has gone to great lengths to ensure the quality of this reprint but points out that some imperfections in the original copies may be apparent.

SOCIAL ASPECTS OF THE BUSINESS CYCLE

BY
DOROTHY SWAINE THOMAS

LONDON
GEORGE ROUTLEDGE AND SONS, LTD.
NEW YORK: E. P. DUTTON & CO.
1925

Thesis approved for the degree of Doctor of Philosophy (Economics) in the University of London.

Its publication has been aided by a grant from the Publication Fund of the University of London.

Printed in Great Britain by Stephen Austin & Sons, Ltd., Hertford.

ACKNOWLEDGMENTS

THERE is no pretence of originality in the economic argument presented in Chapter I—its relation to Professor Wesley C. Mitchell's analysis is obvious.

My indebtedness to two of my teachers, Professor William F. Ogburn, of Columbia University, and Professor Arthur L. Bowley, of the London School of Economics, is greater than I can adequately acknowledge. I am appreciative not only for much help on specific points, but even more because their own work represents an ideal in the application of scientific methods in the social sciences towards which this book purports to be a slight contribution.

D. S. THOMAS.

This page intentionally left blank

INTRODUCTION

THE object of this study is an examination of the sociological aspects of the business cycle. The tool is statistical analysis. The results will be expressed quantitatively, and the interpretations limited by the exigencies of quantitative analysis. The general problem is to discover in what spheres of social activity the business cycle shows its influence, and to measure the relative degree of this influence in each of the fields considered.

It is only within the last few decades that the economic aspects of business cycles have been given quantitative expression, and the discussion of the social aspects is still largely in the state of unproved hypothesis. The sociologist is handicapped in his efforts to apply true laboratory methods to his investigations—the substitution of the "cruder gauge afforded by statistics"[1] does not always give clear-cut results. For, as Longstaff pointed out,[2] "Social and political phenomena rarely allow themselves to be fitted into the rigid figures of the logician, but rather resemble indeterminate equations with many unknown quantities, and reasoning applied to such

[1] Wesley C. Mitchell: *Business Cycles*, Univ. of California Studies, Berkeley, 1913, p. 20.
[2] G. B. Longstaff: *Studies in Statistics*, London, 1891, p. 1.

phenomena takes the modified form of probable reasoning. But although the *data* of sociology are not definite enough for exact mathematical treatment, they are often sufficient to admit of such an application of the numerical method as will yield a first approximation to a solution." What was true in 1891 in regard to the limitations of sociological investigation is still, to a large extent, true in 1924. Now, however, there is available a large body of facts regarding economic and social phenomena which had not been brought to light in 1891—and statistical methods have been developed which make it possible to estimate probable relationships more closely. The estimate must still be inconclusive, because of the imperfections existing both in statistics and in methods. It is to be hoped that the sociologist of fifty years hence will have at his disposal statistical records so complete and accurate, and methods so refined that he may evolve a really conclusive estimate of the social influences of the business cycle. Meantime, the collection and analysis of existing data cannot be considered wasted effort.

CONTENTS

LIST OF CHARTS

This page intentionally left blank

THE PROBLEM AND ITS SETTING

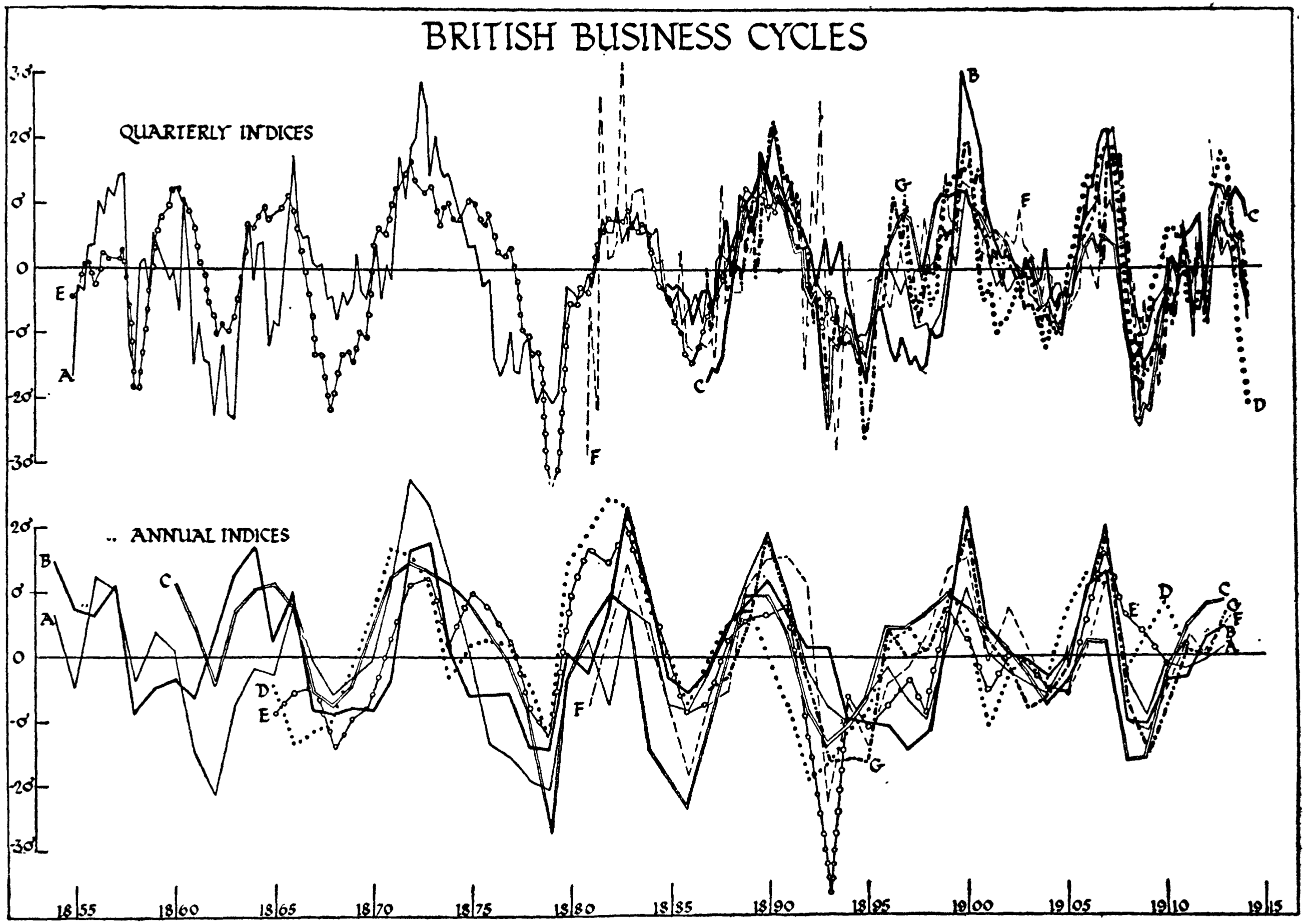

CHART I.

See page 12 *for explanation.*

CHAPTER I

THE PROBLEM AND ITS SETTING

CHANGE is a fundamental aspect of the present economic system. New inventions, technological developments, and the opening up of great natural resources have given an upward swing to production—a tendency which has seemed to increase cumulatively. Along with this increase in production have come great changes in income, and movements in wages which have caused a parallel increase in consumption. The price-level has been subject to vast perturbations. Practically every phase of economic life has felt the force of these great general movements. In addition to these long-time movements and general trends there has been a constant ebb and flow of economic life. Industry has been subjected to cycles of prosperity and depression—great wave movements with three to eleven years from crest to crest and which vary widely in intensity and depth. The concept of " normality " in regard to economic life is a situation of flux and reflux. Industry is continually merging from one phase of the business cycle to another. Conditions favourable to expansion grow out of a depression—activity, once started, tends to culminate in a " boom ". The boom itself ultimately precipitates a crisis—

and from the crisis there tends to be a slow receding to the trough of the depression, from which favourable circumstances once more generate an incipient state of activity, and the cycle repeats itself. Generally speaking, any business cycle passes through the phases outlined above, but every cycle exhibits individual peculiarities. Statistical analyses of characteristic cycles have shown, however, that the similarities between cycles are much greater than their differences. The description of business cycles which follows is based almost entirely on the analysis developed by Professor Wesley Mitchell in his investigation of business cycles in the United States, England, France, and Germany from 1890–1911.[1]

Mitchell has shown that in a state of incipient activity, following a depression, the level of prices is low as compared with full prosperity, and therefore costs of production are low. There are liberal bank reserves and low rates of interest, conditions favourable to loans. A revival in some branch of business, under these conditions, is almost inevitable, and, because of the close interrelations of the business world, a revival, once started, tends to spread and become cumulative in its effects. As the physical expansion of business increases, prices are raised—but at a differential rate as between wholesale and retail, finished and partly manufactured products,

[1] Op. cit.

consumers' and producers' goods, etc. This, combined with the lag in the rise of wages, gives a differential advantage to some business enterprises and makes possible wide margins of profit. But it also tends to injure other businesses and sows the seeds of future difficulties. As full prosperity emerges the supplementary costs of doing business increase disproportionately to the rise in selling prices. Wages rise, there is full employment, and the efficiency of labour tends to decline. Weak enterprises which were forced to close down in depression enter competition in prosperity. They are wasteful, and work on a low margin of profit—their resumption of business bids up prices—and their output increases the difficulty of advancing selling prices to cover advanced costs. Contracts are renewed at high rates of interest. Eventually, a scarcity of funds, due to the great demand for loans and the large amounts of money required for circulation, etc., causes a tension in the investment and money markets, and a consequent rise of interest rates encroaches still further upon profits. This stringency affects particularly the manufacturers of producers' goods who have been stimulated especially during prosperity, and who now find increasing costs of doing business and a lessening demand for their products.

These various stresses become serious when the selling price cannot be raised high enough to prevent