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Do We Have Depressions Licked?

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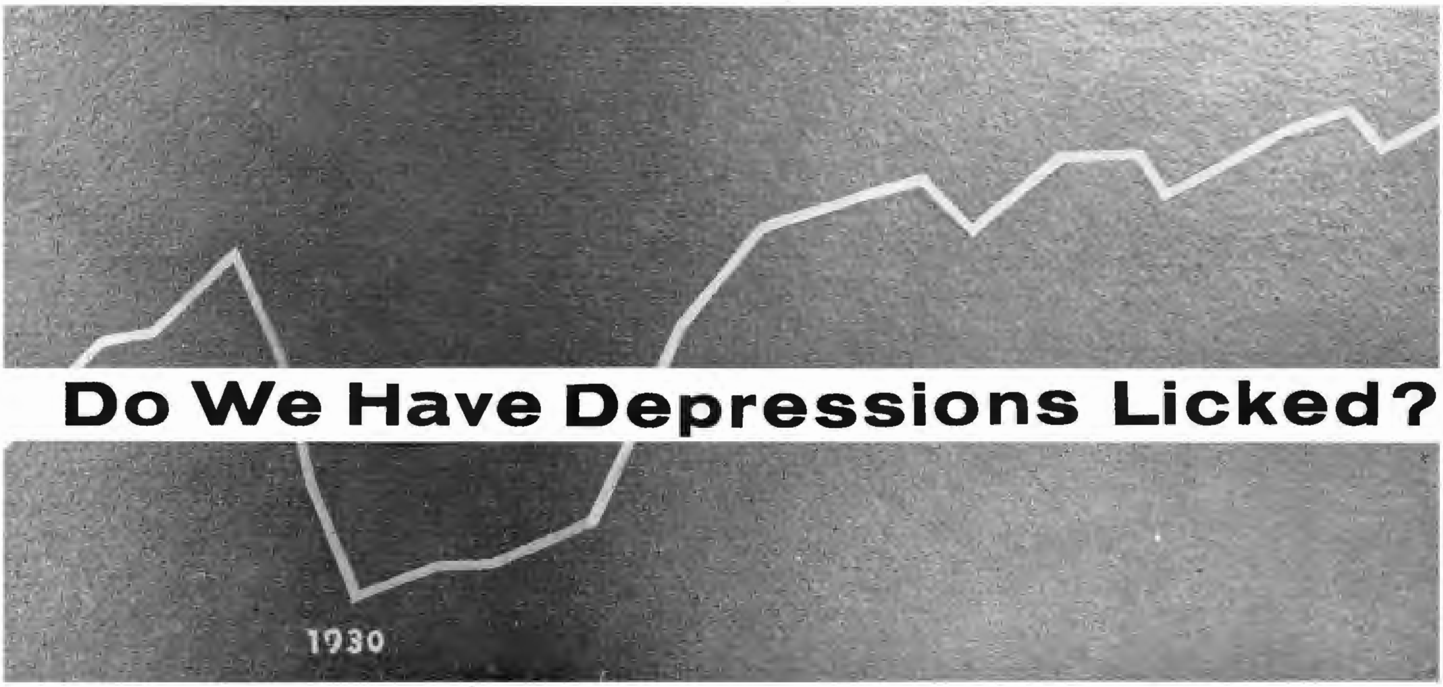

Do We Have Depressions Licked?

We've had three economic recessions during the past 11 years, but our built-in stabilizers and buffers have worked rather well. Though we can't be certain, it looks as though another catastrophic depression such as that of the 1930's is unlikely to re-occur in the years ahead.

by Karl A. Fox

FARM FAMILIES have a twofold interest in the nonfarm economy. It is the major source of demand for farm products and also the source of employment for many of our farm youth and others seeking nonfarm employment. Thus, farm people have a very direct interest in the well-being and stability of the nonfarm economy. For rather than depressions and recessions being "farm led and farm fed," the evidence points to the reverse.

The Great Depression of the 1930's bore with it severe consequences for farm and urban families alike. Thus, economic instability in the nonfarm economy affects and is of concern to farm families. How does it affect agriculture?

First, we need to correct some widely held notions about the extent of the variations in nonfarm employment and business activity. Much of our continuing preoccupation with economic stability stems from that one catastrophic experience—the depression of the 1930's. From 1929 to 1932-33, the real gross national product (the value of all goods and services produced) of our economy slumped 30 percent. Industrial production skidded 50 percent, and total employment dropped 20 percent. At the depth of this depression, a fourth of our entire labor force was idle.

Then, in every year from 1931 through 1940, unemployment averaged at least 14 percent of the labor force. The defense preparations of 1940-41 ended this "decade of idleness." And they were followed by the super-activity of World War II. From 1942 through 1957, there was not as much as 6-percent unemployment in any one year. The average during 1948-57 was about 4 percent —not much more than the minimum rate necessary to permit the normal movement of workers from one job to another.

Not Likely Again . . .

Economists and many business leaders and legislators learned enough as a result of the great depression that nothing of a similar nature or magnitude is likely to recur. It was an expensive lesson. But out of it came such things as recommendations for counter-cyclical fiscal policies; the adoption of social security legislation which acts to some extent as a built-in stabilizer against recession; and the passage of the Employment Act of 1946 which, among other things, created a Council of Economic Advisers in the executive Office of the President and a Joint Economic Committee of Congress.

Because of definite structural changes in our economy and increased knowledge and specific national stabilization policies, the experience of the 1930's seems largely irrelevant to the current situation. In the past 11 years,

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we've seen three recessions and two complete recoveries. We're now in the midst of a third recovery.

Since 1948 . . .

The three economic recessions since 1948 have been concentrated in the durable goods manufacturing industries. And our impressions of the severity of these recessions are typically colored by the behavior of a few industries, such as automobiles and steel.

In these recessions during 1948-58, the average drop in employment from peak to trough in durable goods manufacturing industries was 13.2 percent. In mining, the average decline was 9 percent. Nondurable manufacturing industries showed an average dip of 5.5 percent, while the average was 5.9 percent in transportation and public utilities.

But the decline in wholesale and retail trade averaged only 1.6 percent. And employment in such categories as finance, insurance, and state, local and federal government actually increased from 0.1 to 1.9 percent.

The average decline in *total nonfarm employment* in the three recessions was only 4 percent. And, if we allow for the relatively stable employment of farm operators, other farm workers, professional workers and nonfarm business operators, the average decline in *total civilian employment* during the three recessions was only about 3.1 percent. Thus, the severity of the employment drops in each of the recent recessions was less than a fifth as great as in the 1929-32 depression.

Why Less Severe?

A recession in nonfarm employment cuts the incomes of the workers then unemployed. Before 1933, the purchasing power of unemployed workers would fall almost to zero. When they shifted from meat and eggs to flour and beans under such emergencies, the demand for livestock products would shrink, and prices received by farmers would drop sharply.

The effects of built-in stabilizers, such as unemployment compensation and a progressive income tax structure, have changed this picture to a considerable extent.

About a tenth of the total demand for United States farm products comes from foreign countries. The rest of the commercial demand comes from domestic sources. And at least 90 percent of this domestic demand gets into the farm economy through the stream of consumer spending for nondurable goods—food, tobacco, cotton and woolen clothing, household textiles, leather shoes and certain other products. Less than 10 percent of the domestic demand for farm products comes through such channels as business investment and government purchase (for other than price-support purposes).

The table shows how disposable personal income and consumer spending are protected from the effects of declines in the gross national product by various "buffers" and "built-in stabilizers" which might be likened to the shock absorbers and springs of a car.

Changes in corporate profits and in government income transfer payments (particularly unemployment compensation) have offset more than half of the decline in the gross national product in each of the three recessions shown. As a result, personal income before taxes—income actually allocated to individuals — declined only 5.5 billion dollars in the 1948 recession and less than that in the 1953-54 and 1957-58 recessions.

The progressive structure of personal income tax rates has had a further buffering action—equivalent to 20 percent or more of the decline in personal income. (The drop in personal taxes during 1953-54 is partly the result of a cut in the general level of federal income tax rates in each income bracket.) So disposable personal income after taxes declined by less than 4 billion dollars in two of the recent recessions and actually increased by 2 billion during the 1953-54 recession.

Consumers vary their rate of saving under different circumstances. And they usually do so in such a way as to further insulate the stream of personal consumption spending from the effects of a decline in disposable income. In two of the recent recessions, personal consumption spending actually rose a trifle. And in the most recent one, it declined by less than 1 percent.

The most surprising discovery is that, during 1948-58, the American corporation acted as the most important shock absorber between variations in the gross national product and differences in the personal income stream! This buffering role of the corporation wasn't assigned to it by Act of Congress, nor was it consciously

Effects of buffers and built-in stabilizers between gross national product and personal consumption spending during three economic recessions, 1948-58.

	Changes from peak to trough (billions of dollars)		
	1948-49	1953-54	1957-58
Gross national product at peak	265.9	368.8	445.6
Less gross national product at trough	256.4	358.9	425.8
Equals:			
Change in gross national product	— 9.5	—9.9	—19.8
Less change in depreciation, indirect business taxes[a]	+ 2.3	—0.7	— 1.7
Equals:			
Change in national income	—11.8	—9.3[b]	—18.1
Less change in corporate profits, government transfer payments[c]	— 6.3	—8.2	—13.6
Equals:			
Change in personal income	— 5.5	—1.1	— 4.5
Less change in personal taxes[d]	— 1.7	—3.1[e]	— 0.8
Equals:			
Change in disposable personal income	— 3.8	+2.0	— 3.7
Less change in personal savings	— 4.1	—1.3	— 1.6
Equals:			
Change in personal consumption expenditures	+ 0.3	+3.2[b]	— 2.1

[a]Also involves three other minor items.
[b]Slight discrepancies due to rounding.
[c]Also includes six other relatively stable items.
[d]Also includes "personal nontax payments," a relatively small item.
[e]Decline partly attributable to a reduction in federal income tax *rates*.
Source: *Survey of Current Business*, July 1958, pp. 13-15; *Economic Indicators*, Sept. 1958.

developed as a public service by the corporations. Apparently it simply evolved, step by step, out of the cost structure of large-scale enterprises, the nature of the investment market and corporate attitudes toward the financing of new plant and equipment.

Taxes on corporate net incomes average about 50 percent. The reduction in corporate tax payments ranged from 2.6 to 5.9 billion dollars in the last three recessions. And corporate profits after taxes also declined by from 3 billion to more than 6 billion dollars in each. But corporate dividend payments showed reductions of only from 0.2 to 0.4 billion dollars from a basic level that now exceeds 12 billion dollars a year. To maintain dividends, corporations have accepted sharp fluctuations in undistributed profits.

A "Smooth Ride" . . .

The effect of these various built-in stabilizers and buffers has been to give the American consumer—and all parts of the economy dependent on personal income expenditures—an incredibly smooth ride during the past decade. It's doubtful that any economist in the late 1930's or early 1940's would have hoped for such a high level of performance or would have accepted the responsibility for achieving it.

It may be, of course, that events (some in the international arena) have fallen in a time pattern particularly favorable to domestic economic stability. And the road ahead may be rougher, at least in spots, than the one we've just traveled in 1948-58.

Farm Effects . . .

Now let's turn to the effects of economic instability on farm prices and incomes during 1948-58. Food products make up something like 80 percent of the total domestic use of farm products in the United States. And changes in disposable personal income is the economic factor that generally brings about changes in the demand for food.

Generally the degree of instability in the nonfarm economy during 1948-58 was small. The buffering action of built-in stabilizers and corporate dividend policies was large. The result has been that recessions in consumer income have been almost negligible.

The Future . . .

Somewhat larger fluctuations in gross national product are possible, but much deeper recessions are improbable. And the buffers and built-in stabilizers would greatly mitigate them if they commenced—nor have the means now available for deliberate intervention been overtaxed.

It's *conceivable* that our economic defenses have held because they haven't been seriously attacked. There have been other periods of 8-10 years in which only little cycles have occurred, to be followed later by big ones. But the new features built into the economy and national policy since the 1930's aren't imaginary or illusory! They've worked rather well, and, in most cases, we understand *why* they've worked. This promises well for our ability to meet future challenges to economic stability.

Job Opportunities . . .

The effects of economic instability on labor mobility, off-farm migration and job opportunities for farm people are less conclusive. Does *any* recession, for example, imply that *no* farm people can find jobs in the nonfarm economy? If not, then the problem is to discover how much the probability of young farm people obtaining nonfarm jobs within reasonable lengths of time is reduced by recessions of particular severities.

We've noted that employment in government, service industries and in finance, insurance and real estate actually increased in each of the three recent recessions and that declines in total civilian employment averaged only about 3 percent. Despite an average decline of 13.2 percent in employment in durable goods manufacturing industries, there appeared to be good prospects for employment in other lines.

Furthermore, wage rates in durable goods industries are high relative to those in some of the activities that expanded during the recessions or that contracted only slightly as did wholesale and retail trade. And this latter category included more workers than did durable manufacturing.

Unemployment compensation for workers in durable goods manufacturing is high enough to act as a "support price" and to keep the workers laid off by car and steel manufacturers, for example, out of the labor market for several weeks or even months until their particular industries revive. Government unemployment compensation is supplemented in some industries by negotiated supplemental unemployment benefit plans.

To the extent that surplus labor from manufacturing industries is "stored" in this fashion, opportunities for farm people to move into nonmanufacturing occupations are only slightly impaired by a recession. And nonmanufacturing occupations account for more than two-thirds of total nonfarm employment.

In the 1953-54 recession, the decline in total nonfarm employment was 3.7 percent for the nation as a whole—but ranged from 7 percent in the heavily industrialized East-North-Central Region to only 1.9 percent in the West-South-Central Region. The 1953-54 recession, like our other recent recessions, was concentrated in the durable goods manufacturing industries. Thus, 84 percent of the variation among the regions in the recession decline in employment was associated with the percentage of nonfarm workers employed in durable goods industries at the beginning of the recession.

Other studies also show considerable variation in unemployment conditions during the recession among the different metropolitan areas or labor markets around the nation. And the implication of these diverse patterns also is that there must be considerable regional and local variation in employment opportunities for farm people as well as others during the course of a "national average" recession.