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# CAPITAL EXPANSION EMPLOYMENT and ECONOMIC STABILITY

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BY

HAROLD G. MOULTON

GEORGE W. EDWARDS

JAMES D. MAGEE

CLEONA LEWIS

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HAROLD G. MOULTON  
GEORGE W. EDWARDS  
JAMES D. MAGEE  
CLEONA LEWIS



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## DIRECTOR'S PREFACE

This comprehensive investigation of the factors responsible for the prevailing stagnation in the American capital markets was begun two years ago. One section of the analysis, the relation of taxation to investment, was published in pamphlet form in the spring of 1939. The study as a whole is intended to clarify the issues involved in a problem of fundamental importance to the well-being of the American people and to offer suggestions which, it is believed, would serve to remove impediments to the flow of funds into investment channels and to stimulate capital expansion.

In the preparation of the volume the authors have had the opportunity to discuss the various issues involved both with officials of government regulatory agencies and with representatives of industrial and financial groups. They have also had the benefit of criticisms and suggestions of various members of the Institution's staff, including Charles O. Hardy, Henry P. Seidemann, Daniel T. Selko, and Meyer Jacobstein. To all these the authors desire to express their indebtedness.

Karl T. Schlotterbeck has rendered invaluable assistance in connection with all phases of the investigation, and particularly Chapters VI to IX inclusive, where his contributions were akin to joint authorship. Hugo Bezdek, Jr., rendered important aid in connection with Chapters I and II. Professor M. Slade Kendrick of Cornell University collaborated in the preparation of the chapter on taxation in relation to investment.

EDWIN G. NOURSE  
*Director*

Institute of Economics  
May 1940

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## INTRODUCTION

More than ten years have elapsed since the advent of the great depression, and seven years have passed since the beginning of the recovery movement of 1933. Except during a short-lived inventory boom of 1936-37 the level of national income in the United States has not even approached that of the late twenties. Depression, with its accompaniment of idle money, idle capital, and idle men appears to have become a chronic condition.

Out of the welter of discussion and controversy of recent years the view has gradually emerged that a primary source of difficulty is to be found in the restricted flow of funds—particularly long-term investment money—into new capital enterprise. Statistical evidence and common observation alike indicate that the recovery of recent years has not been accompanied by any extensive expansion of new capital enterprises and that in many lines the replacement and rehabilitation of existing plant and equipment has been subnormal. The persistently depressed condition of the so-called capital goods industries appears to be generally regarded as the feature which most strikingly distinguishes the present period from the economic recoveries of former times. This fact is conceded to go far toward explaining the low level of economic activity, the unprecedented volume of unemployment, and the reservoirs of idle funds.

There is, however, the widest difference of opinion with reference to the causes responsible for the stagnant condition of the so-called capital markets. Some attribute the situation chiefly to the regulations imposed upon the securities business. Others regard it as due to a basic lack of confidence in government attitudes and policies generally and to fears with respect to the whole future of private enterprise. There are also those who charge that it represents simply a strike of capital, engineered with a view to scuttling the government's entire social program.

From the broader economic and business point of view, doubts are entertained by many economists and business men with respect to the magnitude of investment opportunities in the near future—

for they cannot clearly discern any new industries comparable in significance to those of former days. Other observers, associated principally with the government, are convinced that the United States is now at the end of an economic epoch and that accordingly little opportunity remains for further expansion under private enterprise. They regard the last 100 years or so as an era peculiarly favorable to the flowering of private capitalism. The opening of vast new productive areas and a phenomenal expansion of population, together with scientific discoveries and inventions and the development of the corporate form of business organization, combined to give private enterprise a unique but unrepeatable opportunity for the exploitation of its peculiar capacities. We have now, it is argued, reached a stage of economic maturity in which the field of private enterprise is necessarily so restricted that we must look to government enterprise and vision to open the highways to further progress.

The issues thus raised are obviously of fundamental significance. The future economic stability of this country will largely depend upon how they are settled. Whether or not the United States has reached the end of an economic epoch, it is clear that we are now at a crucial stage so far as economic thought and public policy are concerned. The purpose of this volume is to throw such light on these issues as scientific investigation may make possible.

The factors involved in the problem under consideration are complex in character; there is no single, simple cause or remedy. It should perhaps be noted in this connection that the phenomenon with which we are concerned is not confined to the United States. Until armament and war programs came to dominate the economies of European countries, most of them were also confronted, in varying degrees, with stagnant capital markets, idle factories, and persistent unemployment. The situation was particularly acute in such normally capital exporting countries as Great Britain, Holland, and France which, because of international economic and financial disorganization, found themselves dependent almost entirely upon internal outlets for investment money.

The scope and focus of this volume is suggested by the titles given to the two major sections into which the analysis is divided.

The first is "Investment Trends and Capital Requirements," and the second "Government Policies and Private Capital Expansion."

The study is of limited objective in that it does not undertake to analyze *all* of the varied factors—private as well as public—which affect the economic situation. It does not cover agriculture, or labor problems, or price and wage policies in relation to economic progress. Nor does it discuss the bearing of international factors upon the future of American industry. It is concentrated on the factors which directly affect the flow of funds into investment enterprise.



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