

PUBLICATION OF THE GRADUATE SCHOOL OF BUSINESS ADMINISTRATION
GEORGE F. BAKER FOUNDATION
HARVARD UNIVERSITY

VOLUME XX

AUGUST, 1933

NUMBER 6

THE BEHAVIOR OF CONSUMPTION IN BUSINESS DEPRESSION

BY
ARTHUR R. TEBBUTT



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BY

ARTHUR R. TEBBUTT

Instructor in Business Statistics



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Publication of the Graduate School of Business Administration, Harvard University. Issued at Soldiers Field Station, Boston, Mass., four times a year. Entered as second class matter, May 17, 1913, at the postoffice at Boston, Mass., under the Act of August 24, 1912.

FOREWORD

It is the policy of the Harvard Graduate School of Business Administration to publish from time to time in this series of Business Research Studies the results of some of the investigations undertaken both by members of the teaching and research staff and by advanced students. In accordance with this policy the present monograph on the Behavior of Consumption in Business Depression has been prepared by Mr. Arthur R. Tebbutt, Instructor in Business Statistics.

CLINTON P. BIDDLE, *Director of Research*

MELVIN T. COPELAND, *Chairman of the
Committee on the Doctor's Degree*

MALCOLM P. MCNAIR, *Managing Director
of the Bureau of Business Research*

PREFACE

There is a tendency on the part of most people to assume that the consumption of goods in general by the ultimate consumer has declined drastically in this depression. It seems obvious, of course, that this should be the case. Our government also apparently has accepted this assumption in the carrying out of its present policy for revival of business, and the success or failure of its plans will seemingly be determined by the increase or decrease in consumption which results.

A short while ago, however, I was greatly surprised by the statement that even during the severe depression through which we have been passing in the years 1930 to 1932 consumption of goods by the ultimate consumer had probably increased over the level existing in the preceding period of prosperity. That such might be the condition of affairs seemed on first thought nothing short of ridiculous, but it is obvious upon reflection that one could neither prove nor disprove the statement without statistical information. Here in the United States we have no all-inclusive statistics concerning the behavior of the ultimate consumption of goods. We do possess some accurate statistics of certain types of production, but it is production for only a narrow range of goods, goods which for the most part are not used by the consumer but only by the producer who uses them to make the goods he manufactures—goods which may never be used directly by us as individuals. It is clear that conclusions drawn from a study of movements in the production of producers' goods, as we may call them, avail us nothing for meeting the question, and we are still in the dark concerning consumption of goods by the ultimate consumer.

Has the public consumed more, or less, in depression than it did in the preceding period of prosperity? We might also ask ourselves the further question whether if it consumed more, how much more; if less, how much less. The answers to these questions are fundamental to a correct understanding of the present depression. More important still, they may point to the proper way of leading us to a recovery that will be basically and inherently sound. In these days of strong-arm attempts to regulate the business cycle, it is essential that we know among other things the correct answer to the question raised above. It will not do to assume an answer, for if our assumption is wrong the regulatory attempts, no matter how strong the arm that forces them, are bound to lead in a relatively short time to disaster. We want to know what is responsible for the decline in business. If we know that there has been a very sharp decline in the consumption of producers' goods and only a relatively small decline in the consumption of consumers' goods, then it would seem obvious that if we are to pull ourselves out of depression the thing to do is to find ways and means of boosting sharply the consumption of producers' goods and of increasing only slightly the consumption of consumers' goods. In this case it would not be feasible to push forward only the consumption of consumers' goods if our object is to get business back to normal. For this purpose it is more essential to increase the consumption of producers' goods.

It is the testing of the correctness of the assumption that individuals consume much less in depression than in prosperity that is the object of this bulletin. I am grateful to Professor J. Schumpeter and to Professor W. L. Crum of the Department of Economics for advice and suggestions given in the carrying out of this study. I also wish to thank Professors M. T. Copeland, T. H. Brown, M. P. McNair, C. I. Gragg, and C. N. Schmalz of the Business School, Mr. S. Siegel of William Filene's Sons Company, and Mr. E. S. Boardman of the Federal Reserve Bank of Boston for constructive criticisms and suggestions.

ARTHUR R. TEBBUTT

JULY 27, 1933

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