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## WHEN THE DECLINE ENDS

by RALPH ROBEY

Majority opinion among government economists at present, according to all reports, is that the current decline of business has another six or eight weeks to run and then there will be an about-face which will start us on an upgrade that by the end of the year will wipe out all the recent losses and bring production back to the high level of the final quarter of last year. This is, as anyone who has followed developments in the past few months will recognize, a most extraordinary prediction. However, perhaps it will prove to be right. But if it does most of the more successful private analysts will be surprised. For most of these private experts, as pointed out here two weeks ago, while not at all disturbed by the present downswing, and refusing to go along with the small minority which thinks this is the start of a major widespread recession, do not expect a sharp uptrend to get under way in such short order. As they see the future, there will be a further tapering off of production for a few more weeks and then a leveling out which may, and probably will unless some new force comes onto the scene, continue for several months, say at least until the Democratic convention in July.

The difference between the two groups is almost entirely a matter of their interpretation of what has happened in the business world in the past few months to bring about the present slump. It is to this interpretation, therefore, that one must look if he is to judge which of the two groups is most likely to be correct.

The argument of the government economists, when stripped of its non-essentials, is that the rapid rise of business activity between September and December of last year was just an ordinary inventory bulge, and the current drop is nothing more or less than the customary correction of a top-heavy inventory position. In other words, they see the movement as a whole during the past six months as just the equivalent for all practical purposes, although on a slightly reduced scale, of the recovery and collapse between 1936 and 1938. And they assume, therefore, which is the basis of their optimism, that as soon as the

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## *Stagnation's End*

necessary correction has been completed we will start on the upgrade of another cycle. Their reasoning, thus, is exceedingly simple. Inventories are the whole story.

The private analysts, in contrast, do not look upon the present decline as the result of earlier overbuying. That is, they do not see it as the liquidation of burdensome stocks of goods. Rather, their interpretation is that with the outbreak of the war a large number of American business firms, primarily because they were afraid of price rises and slow deliveries on their orders, decided to lift the general level of their inventory position. They also decided at the same time that it was wise policy to convert a part of their cash balances into capital improvements. Producers, therefore, were called upon to turn out a volume of goods which was sufficient, not only to take care of immediate consumption demands, but as well to lift inventories to the desired higher level and to make possible the changes in productive equipment. That job for the most part has now been completed, and the current slump is simply a readjustment of production back down to current consumption levels.

**S**uch actual facts as are available support the interpretation of the private analysts rather than that of the government economists. Inventory accumulation last year was not excessive. According to the Bulletin of the National City Bank of New York, in the 590 important companies for which data were available at the end of last week, the increase over 1938 amounted to only 4 per cent. Such an increase, of course, is insignificant.

Granting, therefore, that the private analysts have the best case on the nature of the slump, is there any reason to believe that in spite of this they may prove wrong and we will get an upturn? Clearly there is. All that would be necessary is some development that would start taking goods off the market. This might come through war buying, through a revival of the capital markets, or through a clarification of the political outlook. The private analysts do not rule out these possibilities. All they say is that as yet each one is nothing but a question mark.