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Part 3

APPRAISAL

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THE preponderant sentiment of all who participated in this valuable conference seems to be that something can be done to lessen the instability that has marked business investment. Perhaps this is simply a case of the devout agreeing on the creed or perhaps it is a professional mirroring of a very general public desire. In any event, the agreement was marked. Dissent, or at least something close to dissent, seemed to come from Mr. Dean and Mr. Wright and there was at least some uncertainty from Mr. de Chazeau and Mr. Hoadley. But this questioning has enriched the conference and the entire subject.

I have two general observations:

There was no discussion of a question that, while literally not a part of the subject, seems to me to bear very heavily upon it: Should the aggregate amount of business investment, or its proportion to gross or net production, be reduced, increased, or held the same? Since in the present state of knowledge no one could be certain of the precise effect of any policy, any effort to stabilize business investment should be based on an assumption as to which way the benefit of the doubt should go. Granted that the effect of any policy cannot be exactly known, would it be better for business investment to be reduced or increased? This seems to me to be an extremely vital question, which must be answered in formulating policy on regularization. I shall return to this subject later.

My second general observation is that we must more clearly identify the kind of instability with which we are concerned. There were in the papers and the discussion many examples of vagueness or differences on this subject. For example, Mr. Dean held that the key to instability "is managerial discretion as to the timing of capital expenditure," while Mr. de Chazeau seemed to attribute it also to the growing range of discretionary expenditure in a country of high standard of living and Mr. Hicks held that, at least in his business, capital expenditures inevitably will be made when cash is available and there is high demand for product.

Viewing the same subject differently, there seemed little attention to what cycle is under discussion. Preponderantly, the discussion seemed to contemplate one homogeneous, standardized business cycle and the only exception was some reference to a building cycle. But there are various other types of cycles with different durations, including among the more prominent ones the Kitchin or forty-month cycle, the Juglar, and the Kondratieff. Regularization efforts might be quite different in type and timing among different businesses affected by different kinds of cycles and conceivably there could be some flatly contradictory efforts and conclusions.

Or viewing the same subject in still another way, there is the question of what is meant now; most of the discussion looked down from Olympia. But policy formulation at any given time would have to start from a specific point on earth and in the calendar and would probably have to have some conception of the future from that point. A tone of bearishness came out a few times but it was muted and incidental.

So in several different senses exploration and clarification of the meaning and implications of instability seem desirable.

So much for the general observations. Let me now turn to some more specific points.

Disagreement or lack of agreement is very widespread among the papers and in the discussion. This existed between speakers and writers both on specific points and on the object and purpose of the Conference—and sometimes individuals seemed to disagree with themselves. The number of instances is so great that I will attempt to touch on only a few of the more important ones and that more by way of illustration, to show the basis of a conclusion that I shall reach, than as a summary or critique.

The responsibility or appropriate role of both business and government in the regularization of business was in dispute. Dr. Schmidt seems to believe that business can do a great deal, both in the regularization of investment, and in the regularization of total demand, on which his paper focused most. Dr. de Chazeau feels that the firm must be strictly attentive to its own interests but that these interests can and should be interpreted very widely. A number of participants feel that the business firm has considerable desire to help in regularization but must first be answerable to its owners. Among the most dubious were Mr. Hoadley, Mr. Morehouse, and Mr. Dean—the last named referring to "the profitless burden of stabilizing the economy." A number of participants, particularly those from private business organizations, expressed unfriendliness and distrust for any effort by government to do anything. Others in turn feel that if anything worthwhile is to be accomplished in regularization it will have to be done preponderantly or exclusively by the government. Mr. Hart appeared to hold this feeling with particular intensity. The number of things that it was suggested the government could do to contribute to regularization was very large, running through taxation, financing, monetary policy, regulation, investment, and fixing of goals. Some of those who looked toward government as the only hope rather strongly deprecated the possibilities for action by private business on its own and there was more than a hint of questioning the good faith and intent of private business firms.

I hope I may be forgiven a little criticism. This controversy about and between business and government seems to me a false trail—and I almost said a false god, for it has almost become a god to some. To my mind, all who are engaging in this controversy are doing themselves and the subject of regularization a disservice. The fact is that both business and government are fallible and imperfect instruments. Both have been parties to major mistakes in the past and both have aggravated booms and depressions—and never more so than at this very moment. There is a great deal of room for humility on both sides and there is no justification for some of the other less desirable attitudes. Both business and government are units in which society is organized. Both are as responsible and act in as good faith as much of the time as fallible beings have so far been able to. Society needs and must have both units of organization, and both are appropriate units of social and economic organization. Both can do a better job than has been done so far. If greater regularization or other meritorious goals are to be approached, both business and government to my mind must contribute. Here endeth the exhortation.

Another example of lack of agreement lay in what is conceived to be the planning horizon of business firms. The period ahead for which business makes plans is conceived to be a widely different interval by different individuals. Dean suggested that one, or at most two, years is the period ahead for which plans are made. Morehouse said that among public utilities there is a one-year budget, a medium-term budget of three to five years, and sometimes a long-term plan of ten years or more. The paper by Jacoby and Weston and that by De Chazeau refer to planning periods covering up to twenty years ahead.

A third major area of disagreement that I should like to mention illustratively concerns the steps that might be taken to try to attain regularization. Wide differences are inevitable because of the differing views held as to how the process of business investment works and what the determining factors in it are. Thus Dean and Morehouse describe an elaborate and detailed capital budgeting procedure as the process by which business investment decisions are made, whereas De Chazeau in his questioning found little trace of such rationality and Healy positively asserts that irrationality seems to exist. Jacoby and Weston are to be found somewhere between these extreme views. Hoadley, Schmidt, and Knauth preponderantly stress factors affecting total demand and its influence on business investment. Still other speakers go to a wider range: Boatwright emphasizes international influences, Hart stresses government, and a number of writers and speakers stress financial influences.

As a final illustration, there are differing views of the importance of the interest rate, a revelation hardly surprising at a meeting of economists.

My suspicion is that the apparent lack of agreement in all four of these illustrative cases—and it would be possible to add a large number of others—is an almost classical case of the blind men describing the elephant. I say this not in disrespect to the writers and speakers but in hearty recognition of the vastness and complexity of the problem of business investment and its determinants. Business investment, in fact, encompasses a tremendous variety of operations in a tremendous variety of businesses. And these operations are carried on by these firms under conditions that vary significantly over time. It is almost inevitable that different features should seem most prominent, characteristic, and determining according to what desk the observer has been sitting at over what time period.

But the apparent array of differences is also, I strongly suspect, a very marked exaggeration of the views that are held by the members of the Conference. Some have emphasized one aspect and some another to a degree where disagreement appears to exist; further discussion and identification of subject and assumptions probably would greatly reduce the apparent disagreement. Furthermore, this conference itself probably has brought increased understanding among the members so that I can well imagine that differences are less now than they were when the Conference was planned. But differences doubtless still exist and I shall return to a further consideration of them a little later.

Let me now turn to my specific conclusions and suggestions on the subject. There are five.

1. I feel very strongly that in any effort toward regularization of business investment the utmost care should be taken to avoid any possibility that the total investment, excluding inventories, would be reduced over the course of the cycle. Since any policy on the subject cannot be expected to achieve a precise result, the benefit of the doubt should fall in favor of expanding the total of business investment, excluding inventories, over the cycle and against any possibility of curtailing that total. This leads me to suggest that policy should concentrate on boosting the total of business investment, excluding inventories, in recession and slump, and should be very cautious about attempting curtailment in boom. I am aware that there are some semantics involved but surely my purport is clear.

2. The best scripture for action to my mind may be taken from the book of Abramovitz: "Encouraging the kinds of price changes that induce countercyclical speculation." Abramovitz at this point is talking about inventory operations. But his idea, to my mind, can and should be broadened to encompass the entire subject. All business investment is forward-looking and, in a nondeprecatory sense, speculative. The fundamental problem, therefore, is how to stimulate this form of speculation in a slump. This can be accomplished, it seems to me, by cutting the risk believed to be involved in such investment and increasing the expectation of reward. Action in this regard would have to come from all parties that influence risk and reward: government, suppliers of funds, and users of funds. This is thus a demonstration of how essential is the participation of all major parties in the problem. I shall not attempt to specify the actions that are needed, but a good working list certainly could be developed from the papers that have been given at this conference.

3. Businessmen should, and should be expected to, act and think like businessmen. In my opinion, any effort by them to put on a different mantle and forget their primary interest in producing, or facilitating the production and distribution of, goods would be a grave mistake and would be confusing rather than constructive. But while businessmen should not try, or be expected, to forget their real interests, they should reexamine carefully what those interests are. I have no doubt that, as has been repeatedly suggested here, the result will be the discovery that those interests are much broader than some executives have yet realized.

4. Financial institutions should be encouraged in the constructive road toward regularization on which they already are far advanced. The experience studies made by the National Bureau and others, with support from the chief financial groups, provide abundant evidence that the riskiest investments are made toward the top of the boom and that the safest investments are made in the slump. Thus if financial institutions become a little more cautious in booms and a little less scared in slumps, they will evidently be acting in their own direct interest, and in addition, they will be making a contribution toward the regularization of investment.

Use of newly developed devices of investment holds much promise of contracyclical contribution. The purchase-and-lease-back technique seems especially hopeful because by this method both plant and equipment can be produced and made available to firms at a rental cost at the time when they might wish and need it but might be reluctant to make the investment. This would probably also be the best time for the financial institutions to make the investment. The much broader use of amortization is now working against overindebtedness. Greater flexibility is offered business firms by directly negotiated term loans than by the broadly distributed issues previously widely used. There is promise, too, in the general attitude of financial institutions that when debtors are in distress it is wiser to work with them than to sell them out.

The regulatory authorities could make a valuable contribution toward the objective by improving valuation requirements. The present system requires large charges to surplus in periods of recession and slump; experience suggests these are unwarranted when they arise simply from price fluctuations in perfectly sound investments.

I believe that in all this I am agreeing with the excellent paper by Jacoby and Weston—and perhaps going still further. I most vigorously agree with them also that the central bank can and must play an important role in encouraging the financial institutions to act in a countercyclical manner.

5. I want to say as forcefully as I can that regularization of business investment is a matter of bits and pieces. As in so many cases, search for *the* solution must inevitably fail. There is no single simple defect to cure and thus produce perfection. The subject, as emphasized before, is of great complexity and almost infinite variety. Progress toward greater regularization must be made by the use of the great variety of bits and pieces that these discussions have shown

to be available. We need to utilize everything instead of trying to concentrate on one thing.

Finally, let me make three recommendations:

The first is that the planning committee for this conference have an index made of the contents of these papers, which constitute an invaluable mass of information and suggestions on problems, and considerations in the regularization of business investment.

My second recommendation is that the National Bureau, or some group, undertake a study, appraisal, and evaluation of the defenses that now exist against extreme depression or economic disintegration. In the years since the disintegration of the 1930's, a massive set of defenses has been erected. It has not been tested and it has not been objectively appraised. Among businessmen and investors, the great lurking fear is that another disintegration will overtake us. That fear is so great that it constitutes a major enemy of regularization of business investment in either a physical or a financial sense. Objective, authoritative examination and appraisal would constitute a great service and a contribution of considerable importance toward regularization.

Third, a major systematic study of the process of business investment is needed. The lack of agreement, or lack of understanding, or lack of familiarity, manifested in these discussions demonstrates, as I suggested earlier, an insufficient understanding of the actual process. Now we members of this conference are not the only interested parties. I am certain, and it has been stated here, that many businessmen are extremely interested in lessening economic instability. Evidently, we need more information about business investment and the factors determining it. I suggest that a major project be organized for this purpose. I have no doubt that many business managements could be enlisted to open their books and their minds fully on the subject and I should think that funds to finance such a study could surely be raised from the foundations or other sources. Over a period of time, which might even be several years, the factors affecting business investment could be identified and quantified, and the lines of policy necessary for all the groups that are influential in the process could be clearly identified and demonstrated.