

## Our Changing Economy

# Who Can Predict Next Recession?

By Philip Stoddard Brown

**O**UR economy has always been run much the same way a railway is run. When times are good, a railroad orders a great number of freight cars and hires a lot of people to repair its roadbed and makes other improvements. When the outlook is not good, it cancels orders, lays off employes, lets buildings go unpainted, allows weeds to grow and loose ties to get looser.

Today there's a great wave of optimism throughout the land. 1960 is to be a year of business prosperity, greater than we have before experienced. The output of goods and services is to exceed a half trillion dollars; in fact, the fore(casting) figures point to an annual rate of \$520 billion in the fourth quarter of 1960.



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Employment is high. Industrial production this month will exceed the record-high rate of last May and June. Corporate profits are running higher than ever before and the stock market has reached a new high that is three times the average level of 1950 and six times that of the early war years.

Why this optimism? Simply because people believe that the coming months will be a period of rapid accumulation of business inventories. The build-up actually began a little over a year ago and amounted to \$5 billion by last August; then came the steel strike and inventories declined about \$2 billion during the remainder of the year.

### Round and Round

Why is this build-up to be resumed? Simply because people are optimistic. If all this sounds a bit circular, you can try explaining it in items of low stocks-to-sales ratios, but you may find that explanation too goes round and round.

If you try to adduce other reasons for the euphoric feeling about 1960, you don't get far. The rate of spending for residential construction is expected to be less; for new plant and equipment, more. Federal spending for goods and services is expected to continue unchanged; other Government spending, to rise a little. Farmers are expected to spend less for machinery and other goods. Foreigners may buy a little more from us. So it goes.

The inventory build-up will provide jobs and more income. Retail sales may increase and merchants may have to order more and more goods to replace and exchange inventories. For a time, hunger may be induced by excessive feeding.

Then there will come a time when the whole process will be reversed. Merchants will decide "to adjust inventories" by ordering a little less than they think they will need to replace goods sold. Factories will lay off workers and turn out less goods than they ship. People will buy even less than merchants guessed, so orders will be cut more sharply.

When will businessmen sense that inventories are "out of line?" If enough people don't like this year's new cars, or think prices are too high, or decide to try to save a little more, it could happen in a few months. The public doesn't even have to curtail its total spending to create havoc. From the third quarter of 1957 to the second quarter of 1958, it boosted its rate of annual expenditures for several services and nondurable goods by \$7 billion but cut back its spending on durable goods by \$4.2 billion—enough to create anguish in Detroit and cause business as a whole to reduce inventories by over \$6 billion.

Nobody, not even economists and palmists, know when the turn will come. Was it ever true that economists looked at their "leading series" and "sensitive indicators" and predicted the turn? No. In retrospect, every turn has been signaled by some indicators, but which ones will indicate the next turn?

### Recession or Depression?

How severe will the next downturn be? All this talk about the "cushioning effects" of corporate profits and the income tax, and the increasing "compensatory effects" of unemployment benefits and Government spending, implies that it will be short and mild.

But there is always the chance of a conjuncture of adverse forces, such as we haven't had in the post-war period. We may not be so lucky as to have a building boom partly offsetting the decline in inventories and the cutbacks in orders for producers' goods, as we did in 1957-58.

Then too, you never know about the Government. At times it has shown an almost uncanny knack of timing its cutbacks so as to reinforce the depressionary forces in the private sector, just as it has demonstrated its ability to declare a veterans' bonus and to lower down payments on FHA and VA-sponsored mortgages at exactly the wrong times.

One of the great frauds of our times, committed by businessmen, financial analysts and some economists, who more than others ought to know better, is the presumed ability to predict the timing and magnitude of changes in business activity. This ability hasn't been revealed in the many studies of the forecasting records of business services, forecasters have been lucky

—just as some gamblers are often lucky in picking horses and numbers—but to be right more often than can be explained by mathematical probabilities is something else.

What then can you do if you just can't bear the uncertainty and "want to be told." You do what people have always done. Seek out one who speaks with great assurance—"as one having authority."