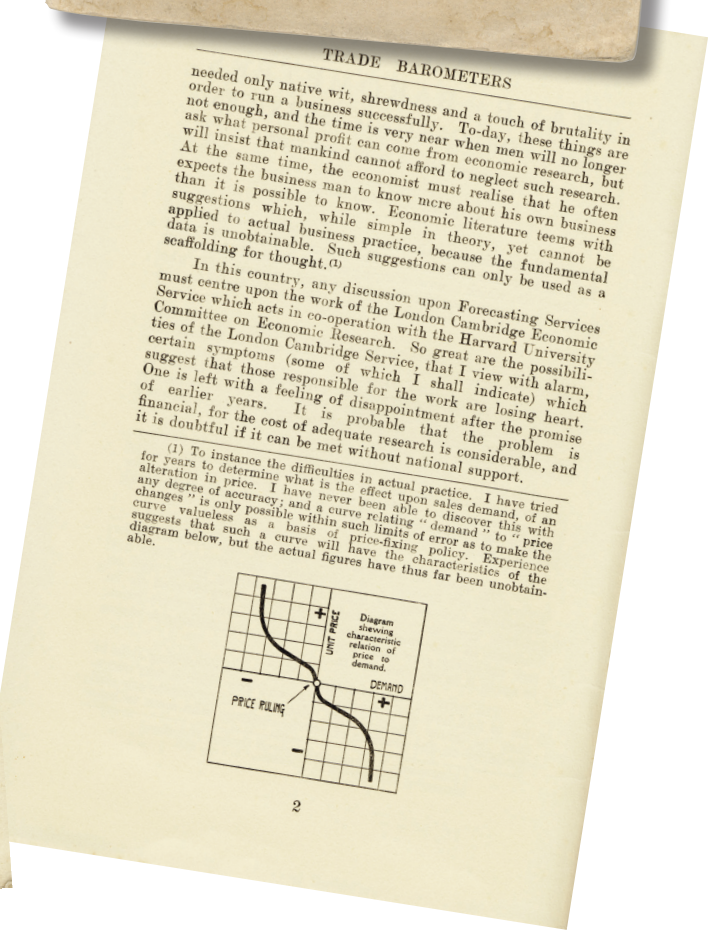
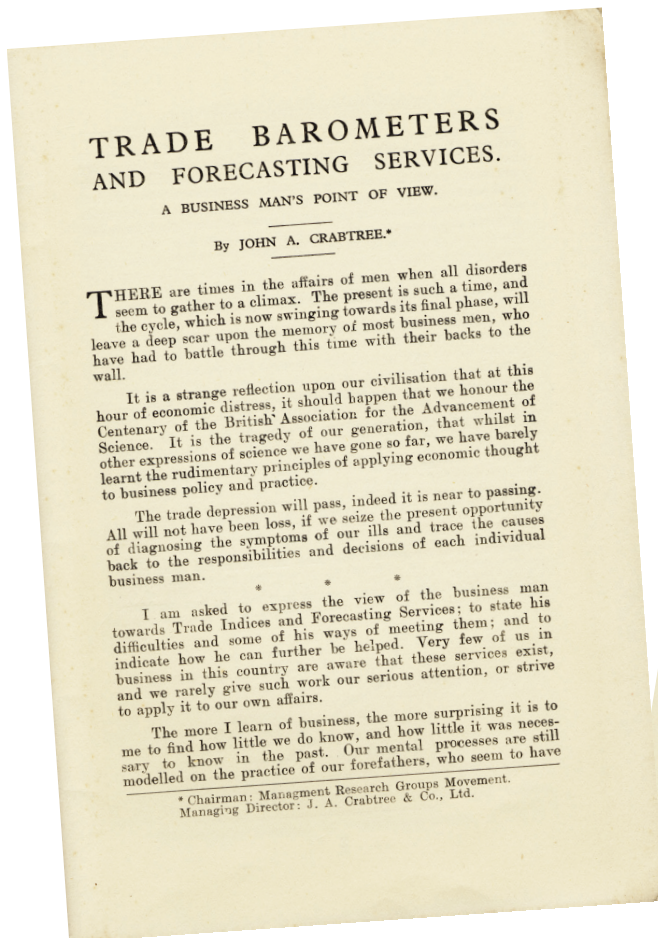
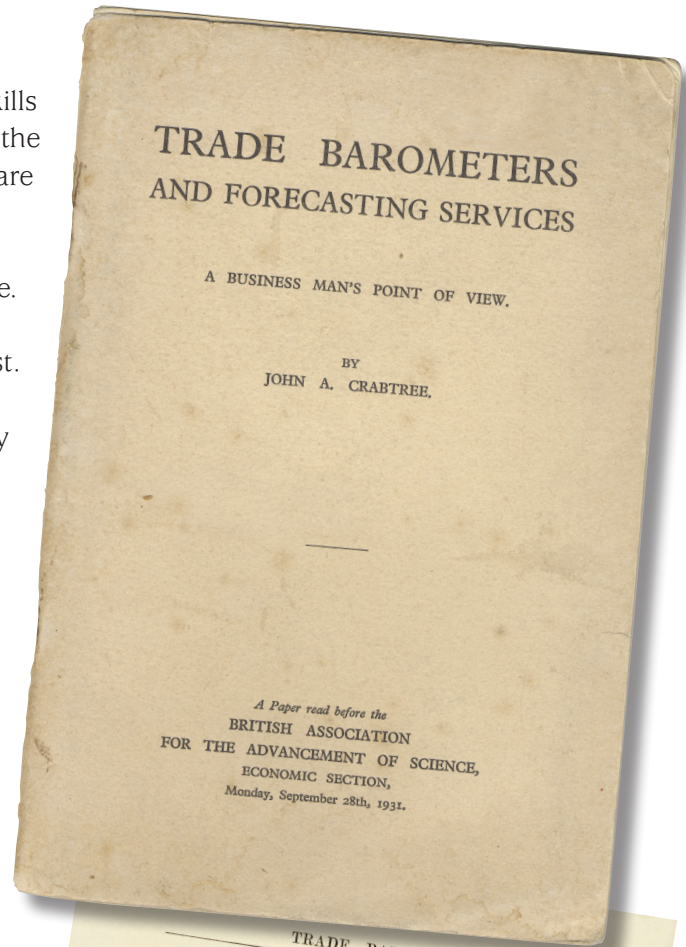


Although an accomplished engineer JAC realised his limited skills in accountancy and the need to improve his understanding of the subject. Over the early years of the company he gave what spare time he had to studying bookkeeping and accountancy.

One of the remarkable attributes of John was to absorb knowledge and quickly put his new found skills to practical use. Soon he was publishing articles on financial matters and in 1929 was to achieve trans-Atlantic recognition as an economist. In 1928 he had publicly challenged Harvard University's "Financial Forecast", his own forecast being fully vindicated by the Wall Street stock market crash in October 1929.

His expertise now recognised, on the 28th September 1931 he was invited to address the British Association for the Advancement of Science. Reading a paper entitled "Trade Barometers and Forecasting Services", John expressed the businessman's point of view towards trade indices and forecasting services, challenging the approach by British industrialists as outdated and inefficient. The detail of his lecture was then published for private circulation by the author and one can presume that it became a highly regarded addition to many businessman's technical library.



TRADE BAROMETERS

Functions of Forecasting Services.

The popular function of Forecasting Services is that of making definite forecasts of Trade. This function is usually the most impressive and unreliable part of the Service.

The less impressive function, which is more helpful—in that it is more accurate—is the concentration and presentation of statistical data upon trade, prices, and the like. Unfortunately, we know very little as to how such data can be utilised in actual business experience, and there is a great need so that such a technique may be evolved. At present, we work for closer co-operation between economists and business men in loneliness; there is little or no exchange of experience, with the result that the work of our generation will be buried with our bones.

Importance of American Conditions.

The list (2) is given in the order of approach that I find most helpful. It indicates the fundamental necessity of knowing conditions in the United States, before the home situation can be seen in accurate perspective. There are many reasons why this should be so. America is the home of business forecasting, and is well ahead with the work. Again, since the war, she has taught the world to think in dollars, and to dance to the dollar beat, while her business and industrial technique has permeated our whole civilisation. Furthermore, I find that while the American market is closed to our products, yet American capital has so infiltrated the electrical industry of the whole world, that every market is affected; and the electrical industry in this country, both in its home and export trade, has become extremely sensitive to business conditions in the United States. In consequence, it is impossible to formulate any policy without first making a close study of the general business situation there. This intimate association must apply to many other industries in which American capital has now come to exercise a dominant, world-wide influence.

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AND FORECASTING SERVICES.

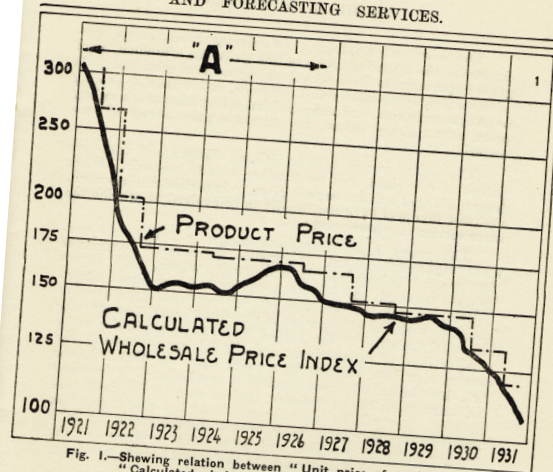


Fig. 1.—Showing relation between "Unit price of product" and "Calculated wholesale price index." (Basis of Index, 1914=100.)

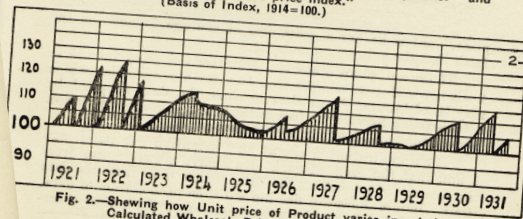


Fig. 2.—Showing how Unit price of Product varies in relation to Calculated Wholesale Price Index. (Price Index at any moment=100.)

TRADE BAROMETERS

quarter, 1928), that the subsequent slump would not have been anything like so severe.

My interpretation of the whole position is as follows:—

- (1) In the three years 1924-1926, America made investments in Europe, which (excluding war loans) were at a rate beyond precedent in history (23). These investments were, in part, the economic reaction to the war debt obligation, and probably the only alternative to cancellation. They were increasingly made to business organizations in Europe and tended to move the emphasis from "loans between States," towards "loans between business undertakings" with two consequences:—
 - (a) American business and finance became vitally concerned with detailed business affairs in Europe.
 - (b) European business affairs became peculiarly sensitive to American trade oscillations.
- (2) When, therefore, in early 1927 there were signs of trouble in Europe, the gush of American investment in Europe during the three preceding years had left the Federal Reserve uneasy about America's foreign investments if a serious trade depression were to develop immediately in Europe. The Reserve policy in 1927 appears to have been directed to support the new foreign investments and entailed a reversal of the more conservative banking principles on which the Federal Reserve had previously operated.
- The problem in 1927 was admittedly a difficult one. Political considerations would not permit of the surgical operation of wiping out the war debts, and the Federal Reserve was impelled to balance up the

(23) Dr. Max Winkler, "Moody's Investors' Service, New York and London. Quoted "American Investments in Europe," C. I. Halliman.

	Government and Municipal.	Company.	Total.
1923	100,000,000	27,567,000	127,567,000
1924	494,250,000	279,375,000	773,625,000
1925	707,191,000	766,465,550	1,473,656,550
1926	283,685,750	544,929,250	828,615,000

(Figures in Dollars.)

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AND FORECASTING SERVICES.

post-war European investments, by a deliberate policy of cheap money and gold exports (24).

It would appear that the Federal Reserve had entered into a gigantic economic experiment with a view of checking and controlling an immediate depression, and there is no question but that the policy was immediately successful. But the postponement of matters had got beyond control, and the money rates of 1928 failed to control a situation, which in 1927 could unquestionably have been shared.

What had happened was that the cheap money policy of 1927 had let loose a false impression of prosperity, which gathered to itself impetus until it broke in 1929. As I see it, we are to-day suffering from two trade depressions in one, clearing up the wastage and inefficiency which normally would have been shared between 1928 and 1931.

- (3) If there is one lesson above all others to be gained from the present depression, it is—that economic forces will work themselves out, and where checked or thwarted are only temporarily submerged. Furthermore, opposition to such forces appears to set up new and dangerous oscillations, which produce ultimate dangers much greater than the immediate evils which are removed.

If the curves are analysed, it will be found that around 1927 all preceding oscillations are seriously disturbed. New influences are brought into being, which for the moment damp out the preceding oscillation. Eventually, the new oscillations become

(24) It is interesting to note the comments of an American observer in early 1928:—
 "These movements (i.e., transfers balances from New York to London, etc.) are impossible to measure with present instruments, but whatever the precise mechanism of the operation has been, the result has been at least to postpone, if not to prevent, serious strains on European exchanges, which might have forced much higher money rates abroad to the detriment of the market and prices for export commodities."
 "The domestic movement of funds, strengthening of sterling exchange, and a change in the direction of the gold movement, following hard upon discount rate changes, appear to constitute an unusual demonstration of effectiveness of Federal Reserve operations, working in the same direction as other causes."

—Harvard Review of Economic Statistics, Page 22, February, 1928.

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