

REVIEW OF THE STUDY:

**Behind the Scenes of Business,**

by Roy A. Foulke (of Dun & Bradstreet, Inc.)

Reviewed by Will Lissner (The Freeman, December, 1937)

Dun & Bradstreet, Inc., the credit reporting agency which specializes in research in business trends, has rendered an exceptional service to the business community and through it to the public in giving wide distribution to its publication, 'Behind the Scenes of Business,' by Roy A. Foulke, manager of its analytical report department.

The work reports the results of a monumental task of statistical research in a field about which too little has been known heretofore, the actual experience of business enterprises as disclosed by carefully checked records taken from their own books. A new edition has been published recently, and there are now 65,000 copies in circulation. The wide demand is a tribute to the practical value of Mr. Foulke's suggestions for the shaping of business policies so as to avoid needless difficulties and unnecessary failures.

But the book has a special value to students of socio-economic policy since for the first time it makes available measures of the effects of speculation in natural opportunities and forces upon business enterprise. Regarding this, Mr. Foulke makes the following acknowledgment of the source of the theory of his approach:

"In the years of reconstruction and rehabilitation following the speculative panic of 1873—and they were ten long lean years—there appeared a remarkable volume of English literature from the pen of an economist, a philosopher, and social thinker, a volume which was destined to be translated into almost every language of the world. The power and inherent strength of its thoughtful, restrained persuasion have placed it on a plane which has been reached by few economic treatises. That volume is 'Progress and Poverty' by Henry George."

Mr. Foulke states the many fundamental problems covered by the major economic theories of which George made, he notes, "one of the most painstaking, broad studies," the study by which he arrived at his belief that the speculative advance in land values is the basic cause of the ever-recurring paroxysms of industrial depression. Describing succinctly how these advances occur, he summarizes George's theory of the business cycle, turns to the highlights of the history of land speculation in America from the seventeenth to the twentieth centuries, and then continues:

"The skyscrapers of New York City. In many cases, with a small or moderate percentage of their space leased, the precipitate drop in rental values in all parts of the country, the failures of chain stores due to excessive rentals, the inability of mortgage guarantee companies to meet their obligations, the uniform extensions granted by insurance companies to mortgagors, the decrease in the amounts of monthly building permits—all of these developments of the past few years were direct results of the ever-recurring speculation in farm land, suburban real estate, and city properties,"

Pointing out that land value as "a pre-eminent factor in the consideration of speculation, investment and wealth" has become "somewhat obscured by the importance of an intermediate step in the form of an almost infinite variety of corporate securities." Mr. Foulke declares that speculation which formerly went directly into land purchases now concentrated in corporate securities, stocks, and evidences of debts, and government obligations.

The corporations in turn speculated in business expansion. Mr. Foulke reports, which resulted in increases in the proportions of fixed assets to their net worths. (Fixed assets, it must be remembered, is an accounting term which is an economic hybrid, representing both liquid and frozen real capital assets as well as land and other items which are spurious capital assets.)

"The toll of these top-heavy holdings in fixed assets during depressed conditions," Mr. Foulke concludes, "become evident in the repossessions of real estate and buildings by mortgagees, in the widespread losses of corporate enterprises brought about in no small degree by the depreciation charges on excess holdings in times of relative inactivity, lit the payment of interest on mortgages, bonds, debentures, and long term notes issued to cover the cost of unwise expansion programs.

"This is not new, strange, or only theory. It is elemental. It is business today. In 1904 Veblen made this idea the crux of his theory of depression and in more recent years that theory has received most careful attention by outstanding students of the business cycle."

These conclusions are drawn from 47,980 sets of figures analyzed over a five year period, measuring the ratio of fixed assets to tangible net worth, current debt to tangible net worth and funded debt to net worth, to show that "if correct proportions are maintained in these automatic controls of safety, profits will be earned more steadily, and many financial embarrassments, particularly of larger enterprises, will be forestalled," They are drawn also from Mr. Foulke's intimate knowledge of the operations of a large number of concerns, whose Fiscal officers, over the years, have turned to him with their financial problems.

This is one section of the panorama of speculation which Mr. Foulke portrays in cold fact. His inventory ratios show the disastrous effects of speculation in raw materials, another section; and of restriction or market freedom, which destroys the normal price determining mechanism, a result of the competitive chaos which speculation in general causes. How a decline in production, and therefore in effective demand, at some point is communicated to an ever-widening circle of industrial activity is shown in his studies of sales ratios. His net profit ratios show how vulnerable business is to general economic conditions.

Mr. Foulke has made a valuable contribution to the extent that accounting practises permit, to statistical measurement of the operation of fundamental economic principles. --- W. L.