COMING EFFECTS OF CURRENT EVENTS

The Lessons of a Tragic Blunder

Either the Administration foresaw the possibility of Chinese intervention before we entered the Korean War, or the decision to intervene in Korea was made without consideration of the possible consequences. Failure to have considered the possibility of Chinese intervention would in itself have been a serious blunder, and inexcusably worse would have been a commitment of American troops after first deciding not to support them with all means at the Nation's disposal if the Chinese Communists intervened. If the United States had persuaded an ally to undertake what the American Army has done and then failed to "back up" that ally under circumstances such as those that have arisen in Korea, our Nation would stand before the world a self-confessed poltroon. Much greater is the dishonor of a nation that hesitates to "back up" its own sons with all the power at its disposal.

Did Mr. Atlee speak with tongue in cheek when he referred to a settlement with Red China that would be consistent with the honor of the United States, or did he simply mean that quiet acquiescence in blackmail apparently would be consistent with American concepts of honor? In any event, now that all is not lost save honor, it is time to salvage what we can and learn the lessons of a tragic blunder.

Lesson number one is that boasting does not pay. Evidently, the Truman Doctrine, the expressed determination to fight aggression anywhere in the world, was made in the hope of deterring international bullies rather than as a statement of foreign policy. Statements of policy should be limited to those that we can and intend to carry out. Otherwise, we merely invite probing tests of our intentions, international blackmail, and war.

Lesson number two is that foreign affairs are far more important than ordinary business dealings conducted in accordance with honest "horse trade" procedures. Foreign policy often is a life or death matter for millions, and those whose lives are at stake may reserve the right to ratify directly or through their representatives the outcome of bargaining procedures. In the United States the people have chosen not to let their lives depend on the bargaining ability of the Secretary of State or any other single individual. Here the people have allocated to their representatives in the Senate certain powers regarding foreign policy and to Congress as a whole the power to declare war. The Administration for years has evaded the plain provisions of the Constitution by substituting the results of an individual's "horse trading" (in the form of executive agreements) for treaties approved by the Senate and by ignoring the Congress when the war in Korea was undertaken. It is time to revert to the constitutional means provided for deciding on and implementing foreign policy.

Lesson number three is that American policies should be within our means, military and economic. The folly of pursuing a policy that we lack the military means to effect should be apparent. The danger of pursuing foreign policies beyond our economic means may not yet be equally apparent to the general public; but to those who understand the significance of the great inflation and of gold departing at the rate of $3,000,000,000 a year as it has for a few months (in other words, to the well-informed in economic matters), the serious danger of pursuing policies beyond our economic means is already apparent.

Lesson number four is that the United Nations is not an effective world government but is primarily a world forum or debating society. The United Nations lacks two essentials of efficient government: separate executive and judicial agencies. We should not have had to learn again what our forefathers knew so well 175 years ago, but apparently we must. There is no implication that a debating society is either undesirable or undignified or that the United States should not participate in the debates and help to implement the decisions when practicable. But in the absence of authority of the United Nations over its members and a bar of justice before which they can be called to account, the United Nations is not a government and should not be so regarded.

Lesson number five is that the security of the United States cannot be purchased from others for money. We have spent billions in Europe and still are not sure of a single dependable ally. In fact, it is an open question whether, by subsidizing the socialistic governments of England and France, we have not hastened the drift toward complete socialism (communism's twin brother) in those countries. But for our largess, the cost of socialistic experiments might have long since been so clearly apparent that governments more in sympathy with our own ideals might now be in power.

Lesson number six is that first things should be put first. Specifically, the Nation's best brains should be put to work on the development of American foreign and domestic policies in order to aid the American people in formulating answers to the following questions:
A. What course of action is essential to the immediate and near-future military security of the United States?
B. What course of action is essential to the long-range military security of the United States?
C. What supplementary courses of action within our means probably would augment the Nation's security in the long run?

Conclusion
The series of blunders that began several years ago and includes cynical disregard of our Atlantic Charter pledges, particularly as they applied to Poland, Czechoslovakia, and China, has now yielded results that we should have expected. Confident in the belief that our expressed determination to resist aggression is sheer bombast, even China “smacks us down.” Surely, the United States has never been more humiliated before the world. Nevertheless, the end result may be much better than now seems possible to many. If the citizens of the United States insist on a reexamination and revision of foreign and domestic policies, we may yet regain the economic, military, and moral stature required for leadership in the world.

SUPPLY

Industrial Production
Steel-ingot production, scheduled at 100.5 percent of capacity for the week ended December 9, 1950, was 17 percent more than that in the preceding week and was 15 percent more than that in the corresponding week last year. The wage increase granted to steel workers presumably will assure the industry of freedom from strikes during the next year. Prices of steel have been raised somewhat less than was generally expected.

<table>
<thead>
<tr>
<th>Year</th>
<th>1929</th>
<th>1932</th>
<th>1937</th>
<th>1938</th>
<th>1949</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weekly Cap. (Million Tons)</td>
<td>.92</td>
<td>.24</td>
<td>.45</td>
<td>.92</td>
<td>1.69</td>
<td>1.95</td>
</tr>
</tbody>
</table>

Automobile and truck production in the United States and Canada during the week ended December 2, 1950, was estimated at 151,004 vehicles, compared with a revised total of 122,683 vehicles during the previous week.

<table>
<thead>
<tr>
<th>Year</th>
<th>1929</th>
<th>1932</th>
<th>1937</th>
<th>1938</th>
<th>1949</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vehilces (000 omitted)</td>
<td>31</td>
<td>11</td>
<td>86</td>
<td>98</td>
<td>73</td>
<td>151p</td>
</tr>
</tbody>
</table>

Electric-power production in the week ended December 2, 1950, increased to 6,716,273,000 kilowatt-hours from 6,507,509,000 kilowatt-hours in the previous week.

<table>
<thead>
<tr>
<th>Year</th>
<th>1929</th>
<th>1932</th>
<th>1937</th>
<th>1938</th>
<th>1949</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Billion Kilowatt-Hours</td>
<td>1.81</td>
<td>1.51</td>
<td>2.15</td>
<td>2.29</td>
<td>5.74</td>
<td>6.72</td>
</tr>
</tbody>
</table>

Lumber production in the week ended November 25, 1950, increased. The New York Times seasonally adjusted index was 1 point above that for the preceding week and was 13 points above that for the corresponding week last year.

<table>
<thead>
<tr>
<th>Year</th>
<th>1929</th>
<th>1932</th>
<th>1937</th>
<th>1938</th>
<th>1949</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>The New York Times Index</td>
<td>124</td>
<td>34</td>
<td>59</td>
<td>97</td>
<td>110</td>
<td>123</td>
</tr>
</tbody>
</table>

*Latest weekly data; corresponding weeks of earlier years
p=preliminary

New Consumer Goods Per Capita

The index of new consumer goods per capita, which had been rising since last February and had reached an all-time high in September, decreased slightly in October. However, the index was nearly 15 percent above that for October 1949.

The index adjusted for long-term trend also decreased slightly during October from the all-time high reached in September. The October index was 10 percent above that for the corresponding period last year.

Our index of new consumer goods per capita is based on the production of several consumer commodities. The various components are weighted in accordance with total consumer expenditures for each of the items.

The decline in the production of new consumer goods was attributable primarily to a 12-percent decrease in residential construction. A slight decrease in food production and a 4-percent decrease in tobacco production (which is not heavily weighted) also contributed to the decline in the over-all index. Automobile output increased nearly 5 percent; furniture production, 2 percent; and textile output, 1.5 percent. Shoe production remained unchanged.

Apparently, mortgage credit restrictions are primarily responsible for the recent curtailment of housing construction. Moreover, preliminary surveys indicate that residential housing will be curtailed further during the next few months.

Automobile production in October (based on factory sales) totaled 760,529 units, 11 percent less than the all-time high reached last June. Recent increases in the prices of Ford cars and the contemplated increases in prices of General Motors cars suggest that producers are
not greatly concerned about demand. However, the market for automobiles is highly elastic; and it would not be surprising if the combination of higher prices and tighter credit restrictions reduced demand more than producers apparently anticipate. In that event, production may be curtailed even more than would be required because of material shortages.

According to preliminary data, automobile output decreased during November, presumably as a result of model change-overs and material shortages. Further decreases in production are probable in the next few months.

Textile production increased nearly 2 percent to an all-time high in October. Moreover, newspaper reports of substantial military orders suggest that output may increase even further during the next several months.

At present the outlook for production of new consumer goods is affected primarily by the following four factors: (1) conversion of plants to military production, (2) changes in consumer demand, (3) shortages of essential raw materials, and (4) burdensome inventories of retailers.

Military production has not yet curtailed production of consumer goods substantially. Military spending is increasing slowly but remains at relatively low levels. Although military spending may increase rapidly next year, conversion of plants to war production in the next few months apparently will not decrease production of consumer goods greatly.

Consumer demand will be reduced mostly by credit restrictions and higher taxes. Although total installment credit outstanding increased during October and November, the rate of increase was much less than that of the preceding months.

Shortages of essential raw materials may have a marked effect on the production of some consumer goods. The 50-percent decrease in the civilian use of cobalt, for example, could decrease production of radios, television sets, refrigerators, washing machines, stoves and high-speed cutting tools by an equal percentage; but substitute metals probably will be used to some extent. Nevertheless, some curtailment of consumer goods may be expected as a result of the National Production Authority’s orders restricting the use of specific metals for civilian production.

Finally, relatively large inventories are now held by retail stores; consequently, new orders may be curtailed greatly once retailers are convinced that inventories are excessive. (In this connection, see “Ratio of Retail Inventories to Sales” in this bulletin.)

In view of the expected decrease in production below the October level, a further decline of our index seems almost certain during the next few months. The decrease in production of consumer goods may be accentuated by rapid conversion to production of armament.

**Ratio of Retail Inventories to Sales**

The ratio of retail inventories to sales rose to a post-war high in October and was at the highest level reached since September 1942. The ratio for October was 15 percent above that for September and was 8 percent above the previous postwar high reached in March of this year.

During October the seasonally adjusted index of department-store inventories increased 6 percent to an all-time peak, and sales decreased 8 percent.

Although goods ordered have been received promptly and outstanding orders have consequently decreased, new orders in October increased to a new high slightly in excess of the previous high reached last July and were 9 percent greater than orders reported in September. New orders usually increase in October, but they were unusually large this year.

In an earlier analysis of the relationship between outstanding orders and goods received by department stores, we found that receipts of goods lagged orders consistently by about 2 months. Outstanding orders decreased in September and in October. Receipts of goods, on the other hand, continued to increase in October. Usually the volume of goods received at department stores decreases during November, a development that would be consistent with the relationship described. However, in view of the large total of outstanding orders (approximately double the average reported during the first half of the year), goods received at department stores may have increased again in November. Even if a decrease occurred, the volume of goods received probably remained near record levels.

We have concluded that inventories probably increased again in November. In view of the decrease in sales in that month (based on weekly data), our ratio probably increased to 3.5, at least, and may have reached 4.0, not far from the 1942 peak.

Apparently, the war developments are influencing retailers’ decisions more than seasonal factors. Department-store buyers seem to be expecting a substantial curtailment of consumer-goods production in the near future and are preparing for that contingency. The NPA has curtailed the use of some strategic materials for civilian goods; but production of electric refrigerators this year has exceeded 1949 production by about 50 percent, and production of the other major electric appli-
ances has been about 60 percent greater than the 1949 production. Obviously, marked curtailment in the production of such items could occur without reducing the quantity currently available to unusually low levels. Apparently textile production, except perhaps certain wool production, will not be curtailed so drastically. Therefore, the volume of consumers goods made available to department stores in the foreseeable future probably will be ample to meet consumer demand in spite of the reduced supplies of some metals.

We conclude that the inventory situation is far more serious than any experienced since the end of the war. The coming inventory readjustments may well be more extensive than those experienced in 1949. The ratio of retail inventories to sales clearly is warning of trouble ahead.

DEMAND

Purchasing Media

Preliminary data indicate that the amount of purchasing media in circulation at the end of November was more than $100,500,000,000, an all-time high. This total is about $300,000,000 more than the revised figure reported for October and $4,400,000,000 more than that for November last year. Since the inflationary expansion began last April, total purchasing media in circulation has increased $6,600,000,000.

Purchasing media derived from the money commodity, gold, decreased during November, thereby continuing the downward trend that has been apparent during most of the past year. The monetized portion of our gold stocks decreased $300,000,000 during November and was more than $1,500,000,000 less than the record amount reported in August 1949. In the last 4 months our gold stocks have decreased an average of $300,000,000 per month.

Purchasing media derived from the second source, commercial, industrial, and agricultural loans, increased $1,100,000,000 in November to an all-time high. The average monthly increase in such loans during the past 4 months has been $1,000,000,000, far more than is seasonally expected. Since last May such loans have increased $5,600,000,000.

As we have mentioned from time to time, a substantial proportion of the increase that has occurred in commercial, industrial, and agricultural loans reflects speculation in inventories and to that extent is inflationary.

The net change in the purchasing media derived from inflationary sources, the third and fourth sources, during November was a decrease of more than $500,000,000. Disposal of more than $700,000,000 of Government security holdings by the commercial banks more than counterbalanced increased real-estate, security, and consumer loans and a slight increase in the security holdings of the Federal Reserve banks.

As we have previously indicated, the restrictions on real-estate and consumer loans seem to have been effective. Real-estate loans increased $420,000,000 in August but less than half that much in November. Other loans, including consumer-installment loans, increased $650,000,000 in August but only about one-quarter of that amount in November.

In our discussion of the Harwood Index of Inflation in the last monthly bulletin, we concluded that as much as $8,000,000,000 worth of inflationary purchasing media might be withdrawn by the end of March, but that withdrawal of about $5,000,000,000 worth of inflationary purchasing media seemed more probable. In addition, a further decrease in the purchasing media derived from the first source now seems probable.

We conclude that, as a result of the changes now expected, the total purchasing media in circulation will decrease to a level between $91,000,000,000 and $97,000,000,000 by the end of March. The extent to which spending for national defense is expedited will of course have an influence on the final figure.

Department-Store Sales

Department-store sales for the week ended December 2, 1950, were 39 percent more than sales for the previous week but 1 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

<table>
<thead>
<tr>
<th>Source</th>
<th>1949</th>
<th>1950</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spot-Market Prices</td>
<td>Dec. 7</td>
<td>Nov. 30</td>
</tr>
<tr>
<td>(28 basic raw materials)</td>
<td>249</td>
<td>347</td>
</tr>
<tr>
<td>Commodity Futures Prices</td>
<td>300</td>
<td>402</td>
</tr>
</tbody>
</table>

SOURCES OF PURCHASING MEDIA