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RESEARCH REPORTS

Coming Effects of Current Events

A cynic once defined gratitude as a lively anticipation of favors to come. No doubt, at least a portion of the electorate has learned to feel this sense of gratitude toward the present administration. The Honorable Alfred E. Smith's dictum that no one was likely to shoot Santa Claus has again been confirmed.

Before pointing out the effects to be expected as a result of the recent elections, it seems advisable to comment briefly on the contests waged in three important states.

CALIFORNIA

The defeat of Upton Sinclair may be a source of satisfaction to conservative interests in California but it must be something less than that to the realist who is interested in future results. Mr. Sinclair was not supported by the Administration and his defeat cannot by any stretch of the imagination be considered a setback to New Deal policies. Therefore, the defeat of the Democratic candidate in California will have little if any restraining influence in Washington.

There is also to be considered the fact that it is far better for the country as a whole to have radical experimentation confined to the borders of one state. The nation can survive an unlimited number of social and economic experiments ending in failure if each is tried in but one or two states of the union. Perhaps it would have been better to try the EPIC plan on a small scale. In the absence of definite failure of that self-levitation scheme, there is too much likelihood that the federal government will undertake such projects on a nationwide basis.

PENNSYLVANIA

This normally Republican stronghold has elected to replace the veteran Senator Reed by his Democratic opponent. Probably few economists would care to defend the tariff policies supported by Senator Reed but we are considering the effects of this election rather than the past records of the contestants. Unquestionably, the victory of the Democratic Party in this state was an overwhelming indorsement of New Deal policies.

MASSACHUSETTS

In this New England state which Mr. Smith carried by a small margin in 1928, the principal candidates

never reached agreement as to what were the issues involved. The Republican speakers attempted to force from Mr. Curley explanations as to the source of the wealth which he apparently acquired while mayor of Boston. Mr. Curley, however, announced that there was but one issue, namely, whether or not the Bay State voters would support the New Deal.

The President's son at first gave the impression that the Roosevelts favored Mr. Curley, but there were no encouraging messages direct from Washington. Nevertheless, it may be assumed that support for the New Deal was one of the principal factors in Mr. Curley's election.

THE COUNTRY'S FUTURE

In weighing the tendencies of present events which will project into the future, it is especially important when considering politics to remember that politicians rarely lead in formulating public policy. In general, the politician who retains his office is the one who discerns the direction in which the public is about to stampede and then rushes to that side of the crowd in time to be pushed into office.

The new Congress will have an overwhelming majority owing their jobs to the obvious fact that the public is still in favor of New Deal policies. That being the case, continuation of the various "handout" agencies and the appropriation of additional funds are practical certainties. Just what form the increased government spending will take is quite immaterial. Whether for the soldiers' bonus, public works, a new housing scheme, or old age pensions, the result will be the same.

It appears that the Administration is more than a little impressed with the course of recovery in England. Peculiarly enough, it is the advice of Dr. John Maynard Keynes which seems to carry weight in Washington, although England refuses to follow him. The Keynes theory of spending to reach prosperity was set forth in a syndicated news article some weeks ago. Among other things, Dr. Keynes pointed out that the spending must be great enough to fill certain voids before substantial effects would be seen. Thus the Administration has ready to hand the reasons for the failure to date of the "pump priming" process. **We conclude that further credit inflation on a large scale is certain.**

Parenthetically, we wish to go on record as believing that much of the radical legislation proposed by Con-

gress should be ignored by business men. In the search for news, the daily papers perhaps overemphasize the importance to business of political developments. Certainly, running a business successfully cannot be accomplished by anyone who has a permanent case of political "jitters." The fundamental requirements for success in business over the long run cannot be altered by Congress. However, when political developments are directly affecting such an important and fundamental part of our economic scheme as the money-credit system, business must take heed and protect itself, or perish.

THE MARKETS' RESPONSE

The consensus of speculative opinion relative to the elections was obviously inflationary. The industrial list, particularly the commodity stocks, rose in price and were followed by the second grade bonds. The principal commodity markets responded in the same way.

AVAILABLE CREDIT FOR BUSINESS

The amount of the credit resources available to business is shown by a survey made by the Association of Reserve City Bankers. From \$3,000,000,000 to \$10,000,000,000 of the total credit lines made available to business customers has not yet been drawn upon. As present commercial loans are less than five billions of dollars, it is evident that this type of credit can be increased greatly on the basis of arrangements already made.

A MODEST ESTIMATE

It was publicly announced (before the elections) that the Federal budget for the year beginning July 1, 1935, will allow for restoration of the 5 per cent. cut in the salaries of government employees. It was estimated that the cost of living will have risen to that extent by July 1. Taking into consideration the various factors working toward higher prices this is hardly an extravagant forecast.

CHANCES FOR A BUILDING BOOM

The Administration is understood to be considering further attempts to stimulate the building industry. In spite of the depressed condition of the real estate market a potential demand for residential construction might be awakened. During the depression the doubling up process among families was very widespread and while this process has now been reversed any upturn in business will greatly accelerate the tendency to "unscramble."

If a liberal enough credit to home owners is offered by the government, the opportunity to build a house on a "shoe string" would have its appeal and might start a substantial movement in new residential construction regardless of what the aftermath might be.

Supply, Demand, and Prices

It is but five years since a solemn warning was issued by a number of prominent economists. They suggested that the world's gold supply was "petering out," and that important and disastrous results would follow a failure to revise monetary standards. The subsequent depression has been cited as evidence that they were

right and more than one silver proponent has argued that gold could no longer be produced in sufficient quantities to serve as the monetary standard. It is interesting to note, therefore, that U. S. production for September set a new monthly record and that there will be at least 10 per cent. more gold produced during the present year than ever before in the history of the world.

As a matter of fact, the shortage-of-gold theories are based on failure to differentiate between cause and effect. At the inflated price levels of 1929, an ounce of gold would exchange for less than half the amount of other commodities that it will buy today. In other words, the price of gold in terms of goods is today twice as great as it was five years ago. Naturally, gold production was curtailed at a time when credit inflation had temporarily lowered the buying power of gold and increased its cost of production.

The implications for the future are extremely important. If prices of goods, during 1934, have been so low that gold production was greatly increased, it seems certain that a further rise in prices is needed merely to preserve the long run balance between gold and goods. This situation will be dealt with more fully in one of our monthly bulletins. It will suffice now to observe that the trend of prices is upward, even if credit inflation were to be stopped tomorrow.

SUPPLY

Industrial production remains substantially unchanged. In view of the good reports of retail trade which continue to come in it may safely be assumed that inventories are diminishing. No doubt, many merchants and manufacturers have been willing to see their inventories drawn down in the belief that most of the rise in prices has already been seen. In our opinion, this viewpoint is erroneous, but the important feature at the moment is that the general supply of goods available to the markets is diminishing and is probably much less than it was a few months ago.

DEMAND

The outlook for future demand is favorable. No doubt, relief expenditures will be greatly increased during the winter months and the public works spending will not diminish appreciably. An upturn in industrial activity will provide somewhat larger payrolls and it is probable that incomes from speculative activity in the security and commodity markets will be larger than during the past six months.

PRICES

Weighing the supply and demand factors above mentioned, and giving consideration to monetary aspects of the problem dealt with elsewhere in this report, the future for commodity prices appears favorable. It is difficult, if not impossible, to foresee the immediate price trends in prospect but the outlook for the next couple of years at least is for higher prices. All signs point to an important step in that direction during the next few months.

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