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RESEARCH REPORTS

Coming Effects of Current Events

Out of a welter of confusing business and political trends there now and then appear indications of improvement in basic conditions which are obscured by the more spectacular events of the day. For instance the steady and substantial increase which has been taking place in the volume of the nation's purchasing power as represented by demand deposits in the banks has escaped the attention which it deserves. The mere fact that there is a growing mass of purchasing power available is of less significance than the effects which this is already having.

Reference has been made in a previous bulletin to the improved collection conditions reported by commercial organizations. A further indication of an improved credit situation is found in the results of a survey by Dun and Bradstreet, Inc., of tax delinquencies in 153 cities of over 50,000 population. This survey shows that there was an average tax delinquency in 1934 of 22.7 per cent as compared with 25.9 per cent in 1933. The 1934 rate of delinquencies is disturbing, but the fact that there was an improvement last year is encouraging.

Another indication that recovery is really under way is the trend of policy loans and lapse rates reported by the insurance companies. The volume of loans outstanding at the peak month, February, 1933, was \$2,997,000,000 as compared with \$2,869,000,000 in November, 1934, the most recent month for which figures are available. As in the case of tax delinquencies, the decrease, which amounts to 4.3 per cent, is not large but it indicates a trend in the right direction. The rate of policy lapses has decreased to a much greater degree while new policies written are reported in substantially larger volume.

The Survival of Capitalism

The tangible evidence of improving fundamental conditions just mentioned, together with the usual indexes of industrial production and commercial activity, testify to the inherent strength of capitalism as it has developed in this country. (Apologies should perhaps be made for using a word which seems to lack definite meaning, especially since capital as defined by the economists is an essential part of any modern productive scheme, whether competitive, bureaucratic, or socialistic.)

Some 200 years ago, it was customary in cases of severe illness to call in the "leech." It was his function

to drain as much of the patient's blood as seemed to be practicable without causing immediate death, in the fantastic belief that this somehow assisted the recovery process. The American economic system has been undergoing somewhat similar treatment at the hands of the "horse doctors" and agricultural economists who have formed what was once known as the Brain Trust, but which is now fortunately less in the limelight. The fact that our social and economic system has thus far survived even the most ardent attempts of these earnest practitioners is a favorable omen of profound significance. It suggests that when, as, and if, the forces of recovery are permitted to operate, there may be a business boom of startling proportions.

We think that the Supreme Court was right when it stated that, in March of 1933 and subsequently, there has been "great need for economy." Furthermore, we are not laboring under the delusion that demand accumulates during periods of reduced production. The facts are that the demand which might have absorbed a greater production of wealth has been cut off precisely as has the production of the wealth itself. However, the facts of recovery to date indicate the direction in which we are slowly moving.

Our Three-Ring Circus

No one who has retained his sense of humor in spite of the depression can have failed to enjoy the past few days. We are all used to Will Rogers and his "clowning" the news. It is a welcome diversion to have Johnson, Long, and Coughlin sparring at each other in the headlines. America is indeed lucky. Italy gets a Mussolini; Germany a Hitler; but we get a trio of bombastic dragon-slayers, any one of whom would be enough to ruin a single European nation. There is an old saying about safety in numbers which seems applicable in this instance.

Johnson is like the proverbial bull in the china shop. He has only the vaguest notions of economic theory and practice. It therefore seems his policy to deal harshly with the apparent obstacles and let fundamentals take care of themselves. Only a Don Quixote of that order could possibly have conducted such a blustering and blistering crusade for the codes which were to end the depression.

Long seems to be the shrewd, calculating politician. Probably he would be glad to add a knowledge of business and monetary fundamentals to his thinking equip-

(over)

ment but is unable to decide between opposing views. Consequently, he falls back on the Bible knowing that it is always a vote getter and that none of its authors are living to dispute his interpretations. He is the one of the trio opposed to Roosevelt.

Coughlin is obviously a sentimentalist who thinks he has discovered some economic truths which will better the lot of the underdog. His reported efforts to obtain profits in silver reveal a practical side to his nature which might make him a menace from the political viewpoint.

If any one of these figures occupied the position all three have found in the public eye, there would be reason to fear the outcome. Happily, we have bred on American soil, not one, but three possible dictators and in so doing have reduced all three from the sublime to the ridiculous.

Confidence

Leaders in banking and business frequently point out that confidence is a prerequisite of business recovery. In going over various interesting documents, we have found a statement regarding confidence which is worthy of repetition. "The kind of confidence we most need is confidence in the integrity, the soundness, the liberalism, the vision, and the old-fashioned horse sense of our national leadership." This statement was made by one of the candidates for President in 1932, a Mr. Franklin D. Roosevelt.

The Gold Profit

The Treasury has decided to use a portion of its "profit" from devaluation for the very worthy object of reducing the public debt. Elimination of national bank notes from the country's monetary system will still further concentrate the power of controlling outstanding currency and credit in the hands of the Treasury. It provides added means for the expansion of currency by an agency already richly endowed with this power.

Veering Winds in Washington

In contrast with President Roosevelt's drastic and irritable message to Congress in regard to public utility holding company legislation is the action of Congress in opposition to income tax publicity requirements. Congress is apparently becoming more conservative.

Supply, Demand, and Prices

The break in prices of cotton futures, discouraging securities markets, disturbing political proposals, and the aggravation of uncertainties in the money situation abroad have not yet caused substantial declines in either productivity or commercial dealings. This suggests that the increased volume of business is on a firmer foundation than the similar situation a year ago. This is due in part to underlying adjustments in the credit structure and in part to a healthier inventory situation.

Comparisons with two years ago are of interest. Automobile production is at a rate more than double that for early 1933. Business activity is approximately

50% greater. Furthermore, we see no reason to fear greater than seasonal declines during the late spring and summer months.

Supply

Industrial production is being maintained at February levels. Further improvement should be evident soon, and within the next few weeks the extent of the seasonal spring rise can be observed. Possibly there is some accumulation of inventories in the case of the low-priced cars, but there is no evidence of inventory building in other fields.

Electric power production, while showing some recession from the previous week, was 4.7 per cent above the corresponding week of 1934. This was a slightly better comparison than the week before and suggests that a contra-seasonal trend has not yet developed.

Demand

By no stretch of the imagination can present conditions be considered a sellers' market but good values are obviously finding purchasers. Resistance to price increases is still great and will probably continue until the next inflation scare.

Prices

Fears that abandonment of NRA devices for maintaining prices will be followed by a general collapse should not be taken too seriously. Code effects on prices have not been so extreme as is often assumed. Other factors have been largely instrumental in effecting price increases as we have frequently pointed out to readers of these bulletins. Those factors will still be effective even if all NRA restrictions are summarily removed.

Of course, the removal of restrictions on prices of certain manufactured goods may invite price concessions. In this event volume may be substantially expanded. If by means of price reductions the majority of manufactured products could be marketed in the volume which the automobile industry is now enjoying, many of today's problems would be solved.

Towards Stability, by Sumner H. Slichter. Henry Holt and Company, New York. Price \$2.00.

Subscribers to these bulletins may be interested in this recently published discussion of current economic problems. While we do not agree with all the points which Professor Slichter makes in this book, the sanity of his treatment of basic economic factors offers a gratifying contrast to many of the "panacea" volumes that are appearing in numbers at the present time.

Chapters on control of investment, control of credit and the problem of purchasing power are of interest and there is a particularly timely discussion of the "Problems of a Planned Economy."

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