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RESEARCH REPORTS

Coming Effects of Current Events

Recently, the daily papers carried a press dispatch with large headlines to the effect that there was serious danger of a power shortage in the event of war. This news item had all the earmarks of carefully manufactured propaganda intended to prepare the public for further excursions into the public utility business by the Federal government. It is true that power production is currently at a peak for all time in this country. However, it also appears to be true that there is additional generating capacity to care for at least twenty per cent. more demand than now exists.

A point frequently overlooked when power needs are discussed is the fact that greatly increased quantities of power could be made available by a redistribution of the load factor. By operating manufacturing plants on a three shift basis and making some changes in office hours, especially during winter months, peak loads could be reduced and more power could be made available to industry.

Nevertheless, from the above mentioned news item and other information from sources which we believe to be reliable, we feel certain that the Federal government intends to spend several hundred million of the so-called relief funds for new power developments. Whether or not this will adversely affect many existing companies remains to be seen. We are inclined to believe that the political advantages to be derived from such expenditures will have fully as much weight as other considerations.

The present Administration is headed by an outstanding politician. He has carried water on both shoulders, not without substantial success to date, and has cheerfully ignored so many of his campaign promises that they have been seriously suggested as a platform for the Republican party. A good politician knows that money is a powerful factor in elections, and we do not believe that this fact will be overlooked by the present Administration. The lack of haste in pushing through the relief bill suggests that those in power would just as soon see it delayed, with the idea that the spending will then extend well into the election period of 1936. It might even be possible to balance the budget next year by not providing any additional relief funds. The doubtful states should find especially good pickings at the relief trough.

A Blow to the "Over-Savers"

A significant reply to the over-saving theorists is contained in the Federal Power Commission's interim report above mentioned. According to this report, a return to normal industrial activity in this country would find the nation's electric power plant development inadequate. Normal plant obsolescence during a period of several years in which new construction has been almost completely arrested has at the same time been accompanied by growing demand. The fact that this industry can have no surplus inventory makes necessary a reserve capacity which most industries can do without.

Although the Edison Electric Institute does not accept the findings of the Commission there are grounds for belief that plant capacity in the power industry and in other lines as well has been reduced to the point where large additions must be made as soon as volume demand is restored. It has recently been asserted that the nation's railroads would find it impossible to move freight on a larger scale than about 75 per cent. of the 1929 volume. Freight cars are simply not available due to retirements from service during the past few years.

Code Enforcement

Although demanding full enforcement of the codes, the Government has chosen to dodge the issue in the Belcher case. It must require a peculiar kind of mind, of a most unfortunately hypocritical type, to demand that codes be enforced and at the same time refuse to submit the codes to the test of a Supreme Court decision.

We do not believe that the codes have been enforced, or ever will be enforced. Furthermore, we heartily endorse the statement made by the "Commercial and Financial Chronicle" in its issue of March 30, 1935 (p. 2076), as follows: ". . . but it [industrial recovery] assuredly will not be attained by demanding that District Attorneys prosecute energetically every code violation that NRA officials can unearth, while the government itself beats a retreat. A demand of that kind is not frank, and what is not frank is generally regarded as not quite honest."

Losing Its Grip

It is clear that the present Administration is losing its hold on the faith of the average man in this country. Two years ago, Mr. Roosevelt's taking office was hailed with almost religious fervor by a large section of the

population. All of his proposals were enacted by a Congress which seemed almost willing to abdicate in his favor. Happily, the situation has now changed.

There is in the air a spirit of counter revolt against the vagaries of the New Deal. Congressmen are finding their courage, perhaps because they now see that the courts will not support some of the hastily passed legislation of early 1933. It is a distinct gain that the legislation on social security, the banking system, and the NRA is to have thoughtful consideration and at least some investigation of the possibilities involved before being enacted.

It is too early yet to foresee what the next election will bring. However, viewing the matter purely from the objective standpoint, we do not see how any party with a \$4,800,000,000 box of favors to distribute can avoid being in office another four years. It would require very inept spending indeed to obviate further recruiting for the relief army of voters who will presumably be eager to support the present Administration. Those who benefit from a broad social security program may likewise find it easiest to express their gratitude through the ballot.

However, the "forgotten man" who pays the bills is numbered in the millions. That he is beginning to fear the growing burden of public debt and a possible inflation which will confiscate his small savings and life insurance is evident. We predict that no more blank checks amounting to nearly \$5,000,000,000 will be given to Mr. Roosevelt, or any other president for some years to come.

Planned Chaos

The arguments in favor of a planned economy have resulted in the appearance of many volumes explaining how such a scheme might operate, but the feasibility of planned economy is yet to be demonstrated. The possibility of planned chaos, however, has been amply shown in the functioning of the AAA. Crop reduction subsidies, now to be paid even though crops are not reduced; processing taxes, which have succeeded chiefly in damaging markets; and the distribution of propaganda by Federal agencies which has tended to encourage sectionalism have all added to the inevitable confusion introduced by a "planned economy."

The New Deal in Belgium

Perhaps our national pride should be stimulated by the tribute of imitation which Belgium is paying us through the establishment of a policy based upon the "new deal." The devaluation of the belga, unlike our devaluation of the dollar, was forced rather than deliberate. There are other dissimilarities between conditions in the two countries which will invalidate comparisons of the effects of similar policies.

Unfortunately, the adoption of inflationary programs by other nations does not make the task of rehabilitation along sound lines in this country any easier. The resort to soft money policies by important nations of the world may ultimately lead to stabilization by international agreement, but the journey to wisdom is a long one via the road of financial follies. In the meantime, difficulties of carrying on foreign trade will be intensified; the spirit of nationalism will be further encouraged; and the dangers of further devaluation of the dollar will be augmented.

Supply, Demand, and Prices

At this time last year manufacturers were in a more optimistic mood than they are today and consequently placed themselves in a more vulnerable position by accumulating inventories. The situation is different this year and for this reason we believe that a collapse in volume similar to that of nearly a year ago will not occur.

Current indexes of production and commercial activity are not comparable with the corresponding data for 1934 because of the much later Easter this year. This factor is responsible for some of the pessimism today and may lead to unjustified optimism within the next few weeks.

Supply

The preliminary figure for the Institute's index of Industrial Production in March reveals a decrease of 1.8 per cent. from the February level. This is the first decrease since September of last year. It is hardly sufficient cause for abandoning faith in the recovery process.

The March level of production seems to be sustained at this time. The current rate of steel output is steady, there having been a slight increase (half a point) during the past week. The production of electric current decreased slightly in line with the seasonal tendency at this period.

Demand

The Institute's Index of Inflation, for which the March data are now available, has increased 0.5 per cent. This reflects continued Government spending, although at a reduced rate in comparison with recent months.

An indication that the capital goods industries are at last beginning to recover is furnished by the report of bookings for the first quarter of this year by the General Electric Company. The increase of thirty per cent. over the corresponding period of 1934 is encouraging.

Recent heavier car loadings, primarily due to anticipation of strikes in the bituminous coal industry, will probably be maintained because of the freight rate increases which have been granted to the railroads by the Interstate Commerce Commission effective later this month.

Prices

Price changes of individual commodities during the past several weeks have failed to affect the averages appreciably. Copper has reflected accumulation abroad, possibly in connection with armament activities and speculative buying induced by recent war scares.

It is interesting to note that commodity prices have held well above the levels of a year ago in spite of much bearish news. Neither prospective abandonment of the codes nor hesitation in industry have materially affected prices. War scares, the crumbling of the gold bloc, and the Wall Street "jitters" have likewise had little or no effect.

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