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RESEARCH REPORTS

Coming Effects of Current Events

So far as can be seen, the most important economic development of the next few months will be the progress of the Federal spending program. An announcement has recently been made to the effect that the peak of this spending will be in November, and that all will be spent by July of 1936. It is apparent that Dr. John Maynard Keynes' recommendation, that we spend at the rate of $400,000,000 a month for about a year, is to be followed. Therefore, we shall soon have a practical test of the theories advanced by the best known advocate of the pump priming process.

Readers may recall that Dr. Keynes has published two open letters to the President through the facilities of the North American News Alliance. These appeared in many of the country's leading newspapers, and each was subsequently commented on through the same source by the Director of this Institute. The discussion was carried somewhat further in an exchange of letters between Dr. Keynes and Mr. Harwood which did not appear in the press. However, a portion of one of these letters, dated February 8, 1934, which was addressed to Dr. Keynes, will be of interest to readers of this bulletin:

"You state in your letter to me that,

> 'The expenditure under the President's programmes will increase incomes and the excess of these increased incomes over current expenditure on consumption of goods will necessarily be exactly equal to what the President is borrowing. It makes *no difference whatever* whether he borrows direct from the public or by an increase of credit originated by the banking system.'

"In effect, you are saying that there are available in the hands of the public large quantities of unused purchasing power or stagnant or partially used purchasing power which the Government can obtain. In that, I believe you to be mistaken. In fact, I have already been at some pains to analyze that aspect of the problem and have proved, by logic and facts, that your supposition is erroneous.

"Therefore, I assert without qualification that you are recommending a policy of inflation, and that the Administration is following such a policy. The results thereof will be greatly complicated by the devaluation of the dollar, but in the end precisely the same condition of instability will exist as was created during the war (or during 1922 to 1929, by more subtle means). The inevitable result will be another collapse, the severity of which will be dependent upon the degree of inflation reached, and the time involved (as well as other factors of less importance). In my judgment, this sequence of events will be most unfortunate from the viewpoint of the country as a whole. I fear that the process may not only becloud vital issues, but that the end may involve loss of much of our civilization that seems to be worth preserving."

The question has been raised whether the spending program can be started as promptly as the President hopes. It is known that many Federal agencies have been planning for months to do their part. The states have likewise been making plans, but it is probable that few state public works agencies are as well prepared as the Federal departments to undertake construction immediately. However, there is no reason why they should not be spending at a rapid rate within four or five months. Therefore, it can be definitely asserted that a spending program of major proportions can be initiated within sixty to ninety days, and that it can be expanded progressively for a period of months.

On the other hand, it seems certain that it will not be possible to spend the entire $4,800,000,000 within a year. As a matter of fact, the act appropriates funds in such a manner that the spending may cover a two year period. As mentioned in a previous bulletin, we expect the spending to continue well into the fall of 1936 at least.

Because of the fact that the funds spent by the Federal Government will consist almost entirely of new credit originated by the banking system, the process will be definitely and seriously inflationary. It seems probable that the increased flow of purchasing power to market will result in greatly increased demand for consumer goods, with a consequent rise in prices, and that it may prove sufficiently powerful to initiate a substantial degree of private inflation similar to that which occurred from 1922 to 1929.

Silver

The announcement of the Treasury's intention to buy silver produced in this country at 71 cents an ounce is one of the important news items of the week. In the first place, it reveals the intention of the Administration to go on with its silver buying program. Secondly, it shows that rising prices for silver will probably not alter the Administration's decision, and that the Government will be quite willing to pay up to $1.29 an ounce. Our opinion is that this price will be reached within the next two or three years.

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This action implies further inflation via silver, probably involving purchases to the maximum authorized. It will be remembered that the Silver Purchase Act of May 12, 1934, stated that it was the policy of the United States to maintain one quarter of its monetary stock in the form of silver. In order to reach that proportion, additional silver to the value of from two to two and a half billion dollars (depending upon the precise amount of gold held) will be required.

In principle, the process is similar to the issuing of currency in France secured by land, the policy which Mr. White has vividly described in his history of the French inflation of 1795. The difference between the two processes is that silver bullion may be readily transported and is perhaps more easily salable than real estate. However, that has no bearing on the degree of inflation which will result from this procedure. Although the inflationary purchasing power forced into the channels of trade by this means will perhaps be only one-third to one-half that created by the Government's spending program, it is nevertheless a substantial amount, and is an unfortunate step in the wrong direction.

The Relief Problem

In the face of real and substantial betterment in employment conditions during the past two years, Federal relief expenditures have increased steadily. Instead of a tendency which should be observable for relief costs to decrease, relief rolls have been augmented although private employers were hiring more men.

According to data made public by the Federal Reserve Board, factory employment in January 1934 was twenty-one per cent more than in January 1933, and in January 1935 was thirty-five per cent greater than it was two years previously. Government expenditures for relief were $1,964,000,000 for the seven months ending January 1934, and $2,075,000,000 for the corresponding period of the following year. Although the present rate of relief expenditure is not so high as it was a year ago, the recent appropriation for relief purposes indicates a substantial increase.

It has been suggested that gradual depletion of the savings of the unemployed during the past two years has forced more of those loath to accept Government aid to seek assistance. An examination of available data fails to support this theory.

Postal Savings in January 1933 totaled $943,377,000; in January 1934, $1,200,000,000; and in January 1935 the amount was the same. Savings deposits in the banks decreased 13.6 per cent during 1933, but increased about 8.6 per cent during 1934. Subscribers referring to our bulletin of March 18th will see that a similar situation exists in regard to savings invested in life insurance.

That these changes in the volume of savings do not represent a concentration in the hands of fewer holders is shown by proportionate increases in the number of depositors and policyholders. These figures indicate that depletion of savings has not been an important cause of the growing demands for relief.

The increase in the relief rolls has also been attributed to a desire on the part of the people to live at Government expense rather than accept harder work in private employment. Rome under the later emperors offers the classic example of a multitude living at public expense, a condition which endured for generations.

Labor Conditions

Although the season is now approaching when labor troubles are normally at their height, major industrial controversies have been settled without resort to strikes as yet. This is in sharp contrast with conditions a year ago. The determined unionization campaign which the American Federation of Labor was then conducting proved to be a costly failure. Organized labor seems hesitant to test its present strength.

Union leaders are attempting to obtain preferred legislative treatment from Congress which may serve as a justification for their existence without resorting to the hazards of active industrial warfare. If such legislation is not forthcoming we may later see an increasing number of strikes. In the meantime, industry is taking advantage of the truce to accumulate inventories of goods the production of which may be curtailed by industrial disorders. If demand slackens appreciably there is a possibility that these inventories will prove burdensome.

Supply, Demand, and Prices

The automobile industry continues as the sustaining factor of industrial production. Since it occupies a middle position between the nondurable and the durable goods industries its progress may foreshadow stimulation of the recovery laggards. Retail sales hold up well, but there are rumors that the used car market has been sluggish. Consequently some doubt exists as to the wisdom of continued production of new cars at the present rate. The situation will be clarified when the usual summer slump occurs.

Supply

Steadiness has characterized industrial production during the past week, according to the usual indexes. Output of electric power, although somewhat below that of the previous week, increased as compared with a year ago, the gain being 5.2 per cent whereas it was only 2.8 per cent the week preceding.

Steel production was slightly lower but seems to be well sustained considering the comparatively large first quarter production. The United States Steel Corporation reported a gain in first quarter shipments which were 37 per cent larger than during the first quarter of 1934.

Demand

From reports received, demand does not seem to be increasing as anticipated. This may be attributed, in part, to the continued cold weather during the pre-Easter season.

A substantial drop in car loadings during the past week was due primarily to reduced coal shipments following the abandonment of plans for strikes in the bituminous fields.

Prices

Reaction from the too rapid rise in the prices of meats and some dairy products has tended to lower slightly the commodity price averages. This is a normal aftermath to the boosting of food prices until consumer resistence was invited, and should be of temporary effect. In fact, as the week ends, wheat and cotton have worked higher.