

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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## RESEARCH REPORTS

### Coming Effects of Current Events

Events of the past week have, on the whole, been of a distinctly constructive nature. To be sure, the importance of the Supreme Court's decision declaring the Railway Pension Act unconstitutional may easily be over-emphasized as a factor influencing net profits of the nation's railroads. Many of them have had pension systems for a number of years, and the effect of even a moderate increase in traffic for such roads would far exceed the cost of the mandatory pension system which Congress attempted to impose.

A careful reading of the Supreme Court decision suggests that the legality of many features of the New Deal program is highly questionable. The doubtful legal status of the NRA has already been emphasized by decisions of the lower Federal courts. It is now believed that the courts may partially protect the utility industry from the savage attacks upon it contemplated by the Administration. Furthermore, pending legislation such as the Social Security Bill may have to be re-drafted.

It is quite probable that court decisions adverse to the New Deal program in 1933 would have been followed by a violent popular outcry against the tyranny of the courts over the will of the people. Such an attitude is not pronounced now and this invites the hope that American traditions are to survive the present crisis.

The passage of the Patman Bill providing for immediate payment of the bonus by the issuing of greenbacks will probably kill all chances of bonus legislation in this session of Congress. A compromise bill apparently would have passed, in spite of a presidential veto, but we do not believe that a two-thirds majority of the Senate can be mustered for the passage of the Patman Bill, the most radical of all the bonus proposals.

Another favorable sign is the growing opposition to Federal spending, not only on the part of leading Republican conservatives, but also by a minority within the Democratic party which has shown alarm at the Administration's complacent attitude towards mounting Treasury deficits and the increasing burden of taxation.

### *Genuine Recovery*

In spite of recent hesitation in commercial and industrial activity, it is becoming more evident that recovery is actually in process. After a three year decline in total savings, the country is again building up its sav-

ings account. As was pointed out in an earlier bulletin, much progress has been made in the liquidation of frozen bank loans, collection conditions are greatly improved, and life insurance savings are increasing again. There is likewise an observable upward trend both in mutual savings bank deposits and in time deposits of the commercial banks. This has occurred in spite of falling interest rates and is one of the causes of the extreme ease in money rates. Other straws in the wind are a continued decrease in hoardings, recently reported by the Federal Reserve Board, and satisfactory sales of the new Government savings bonds.

The recent announcement by the Radio Corporation of plans for extensive test distributions of television sets in private homes is significant. Attempts to develop the products of laboratory research, previously held in abeyance because of the depression, indicate a revival of confidence and the aggressive pioneering spirit essential to recovery and continued progress.

### *Revival of Capital Goods*

Vigorous demand for new automobiles seems the logical forerunner of a revival in the capital goods industries. Automobiles are in a class between consumer goods and durable goods. Of course, there is no sharp dividing line but increasing residential construction is already in evidence. It is also reported that machinery orders are reaching boom proportions.

To be sure, a genuine revival in the American capital market is necessary to finance any large scale demand for capital goods. For a time it was feared that the Securities and Exchange Act would be a more or less permanent bar to new security issues. The sane administration of this act, however, is now allaying such fears and is consequently permitting the flow of new private capital to business.

The low ebb to which the American capital market had sunk during the depression is clearly brought out by the Federal Reserve Board summary showing that the annual amount of new bond issues of corporations, which from 1925 to 1930 averaged approximately \$2,600,000,000, was \$1,240,000,000 in 1931; \$305,000,000 in 1932; \$40,000,000 in 1933; and \$144,000,000 in 1934. This record of diminished capital funds for the maintenance and expansion of the nation's industrial plant confirms recent statements regarding renewal and replacement needs.

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### *Haranguing the Multitude*

The radio has made it possible for the demagogues of today to reach a far larger audience than was possible at the time of Rome's decline. In those days, the mob demanded bread and sports, and received both at the hands of politicians who dared not oppose their wishes.

Fortunately, the fact that Father Coughlin and Huey Long can speak to far greater audiences does not necessarily signify that proportionately greater weight should be attached to their efforts. At the moment, mob rule via telegrams to pliant congressmen seem to have the upper hand. However, the field is too large for one hero of the air to dominate.

The various proponents of schemes for bettering the lot of mankind, although uniformly condemning the profit system and greedy competition, do not hesitate to bite and scratch and gouge each other. So long as this situation continues, the country's permanent decline will probably be postponed.

It has been reported that the Secretary of the Treasury intends to explain the Administration's monetary policy to the public by radio. His task is not one to be envied, and it is safe to assert that he will not be entirely successful. That Administration leaders themselves understand what is being done with the nation's money seems doubtful, so it is hardly to be hoped that Secretary Morgenthau can explain to a radio audience this subject which, according to Professor Fisher, only a handful of professors can understand.

It has been rumored that the Secretary would discuss international stabilization possibilities with a view to obtaining the public's reaction. In that connection, it is worth noting that Sir Josiah Stamp, the noted British economist, recently said, "I do not look for immediate stabilization."

### *The Spending Program*

Information from reliable sources indicates that a large portion of the spending plans will call for expenditures continuing to December, 1936. This confirms earlier predictions.

## **Supply, Demand, and Prices**

Reports received confirm our opinion that the increased industrial activity of the winter months did not greatly exceed demand. The conservative attitude of industrial executives following the mistakes of 1933 and 1934 has, in most cases, resulted in the limitation of production to current orders.

### *Supply*

Electric power production for the week ending May 4th was a surprise to those prophesying an impending industrial slump. The total production of 1,698,178,000 was 4% in excess of production during the corresponding week of 1934, at which time a decrease was shown from the week preceding.

The automobile industry is still very active (April production almost equalled the 1929 record), although labor disturbances in General Motors plants have interrupted that company's work. This may account for the slight further decline of one-half point in steel production. It is not believed that labor disturbances will have the paralyzing effect upon industry which was produced in 1934.

### *Demand*

Demand for consumer goods is continuing in steady volume and will probably increase sharply as soon as the effects of larger Government spending are felt. Some demand for capital goods is evident and will probably become greater during the year. For the past two weeks, check clearings have been substantially larger than last year. Furthermore, demand deposits continue to grow at an astonishing rate. In the past four weeks the increase has been \$750,000,000. Buying power is rapidly being augmented and will almost certainly become effective demand on an expanding scale.

### *Prices*

Prices of commodities in general have been steady during the past week after rising to a new high level during the preceding period. Some grades of steel scrap have reversed their downward trend. Prospects for complete abandonment of NRA price control features have so far failed to produce apprehensive liquidation. Higher prices seem inevitable.

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*Capitalism and Its Culture*, by Jerome Davis. Farrar and Rinehart, Inc., New York. Price \$3.00.

This book is in the Stuart Chase tradition. The author accepts the extravagant claims of those who believe this is an "age of plenty" and permits his soupy sentimentalism to overflow nearly six hundred pages. In the process of condemning the striking abnormalities and even criminalities of the late "new era," he entirely overlooks the fact that they were, for the most part, the direct result of state planning. Beneficent government and semi-governmental agencies sponsored an easy money policy which was certainly the father of most of the illegitimate offspring mothered by human cupidity and greed.

It is easy to rant about capitalism and to deplore the search for profits. In fact, such arguments are only repetition of the idealistic teachings by reformers throughout the centuries of recorded history. Few have given their all to the poor in accordance with the precepts of some of these idealists. It remains to be proved that we should be better off today if such had become the universal custom.

Human selfishness, to a degree, is inevitable. Nature's first and greatest commandment is, "You must live." For reasons which the social planners have not yet discovered, and with undeniable force, this basic commandment emphasizes the individual as such. It is responsible for that apprehension of self which inevitably means selfishness (albeit not necessarily greed and cupidity). In our opinion, an organization of society which utilizes human characteristics instead of denying them is much more likely to become the ideal state.

This is not to deny the malpractices complained of in this book nor minimize their undesirability. However, we believe that the author's leap from chaos to a planned economy is only more of the wishful thinking popular today because of widespread distress and want.

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