

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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## RESEARCH REPORTS

### Coming Effects of Current Events

Since the Supreme Court decision invalidating the NRA was handed down, the efforts of Government, employers and labor have been directed toward salvaging what is worth while of the code provisions. Whether or not an attempt will be made to resuscitate the blue eagle remains to be seen.

It is evident from the decision that the NRA would have met the same fate even if it had not been extended far beyond the scope dreamed of by its original sponsors. The fact that it was so extended, however, is important. A bureaucracy, grown monstrous in size and power, created an unwieldy and haphazard structure in a sincere attempt to assist recovery. The huge organization which the NRA became tried to overcome the natural laws of supply and demand. The colorful General Johnson was a noisy windmill fighter, whose sincerity was exceeded only by his ignorance of fundamental economic relationships.

#### *Effects of NRA Decision*

Whatever the immediate effects of the decision may be, the ultimate effects should be favorable. The deadly smothering of private initiative, unwise price-fixing, and code provisions will be in part removed.

We believe that had there been no NRA, business today would be on a sounder basis and at a higher rate of activity than it is at present. We believe that, once the adjustments made necessary by the Supreme Court's decision are completed, the natural forces of recovery will be more free to function than at any time since the bottom of the depression was reached.

These are generalities. To be more specific, we believe that restrictions on hours of work imposed by the NRA will gradually be removed. This will enable production to keep step with increasing demand at lower unit costs. Prices of manufactured goods may, for the time being, decline slightly and will not rise so rapidly when the inflationary effects of the Government's monetary policy become more pronounced. This will tend to broaden markets, which will invite greater production and provide more employment.

In other words, we are now in a position such that a more normal recovery can take place similar to that which has occurred following other major depressions.

#### *What Will Be Salvaged*

The immediate press response to the decision has been temperate. Few strictures against judicial tyranny

have been observed, even in those newspapers most ardently advocating New Deal measures. A Congress none too enthusiastic for NRA extension is suddenly faced by the apparent need of preserving certain portions of an outworn experiment, not only for face-saving purposes but also to ameliorate the effects of an about face in business doctrine. It seems probable that Congress will accomplish little or nothing and that efforts by the Government to extend its influence over business will be limited.

#### *Effects on Other Measures*

A careful reading of the complete text of the Supreme Court decision finding the NRA unconstitutional (which we advise for all our clients) makes it quite clear that the same principles which apply to the NRA are applicable also to other New Deal measures already enacted and to some of those proposed at this session of Congress. The Securities Exchange Act seems to be the same type of measure, involving an unconstitutional delegation of authority to the executive branch of the Government. In this category we would also place a number of the AAA activities and bills now pending in Congress, such as the Wagner Labor Disputes bill and the Black Thirty-Hour bill. The measure regulating utility holding companies is also open to question.

A constitutional amendment has been suggested as the only way of saving the basic program of the New Deal. Even assuming that an amendment could be quickly framed and ratified, it is extremely doubtful if anything short of a complete revision of the Constitution itself would meet the objections of the Supreme Court to such a fundamental violation of constitutional rights as is involved in the delegation of legislative authority to the President. To quote from the decision on the NRA just handed down by the Supreme Court:

"But we said that the constant recognition of the necessity and validity of such provisions, and the wide range of administrative authority which has been developed by means of them, cannot be allowed to obscure the limitations of the authority to delegate, if our constitutional system is to be maintained."

In effect, it is the Supreme Court's opinion that the people of the United States may have a dictator if they choose, but that Congress may not abdicate unless and until the people alter the Constitution.

### *The Embattled Franc*

Three consecutive increases in the rediscount rate of the Bank of France, following in rapid succession, are strongly reminiscent of similar action taken just previous to departure from the gold standard by other nations of the world. Weakness of the franc in foreign exchange, hoarding of gold by the French people, and the drain of gold from the Bank of France to other money centers are typical panic stages of a fight to maintain a monetary standard. Either abandonment or victory will come soon.

Abandonment of the gold standard by France, the last major nation to adhere to it, has been forecast for many months past. Speculation as to repercussions in this country from such action have been numerous. It is widely asserted that, although the event would probably impair business and speculative confidence temporarily, it would be of favorable significance for the long term. This viewpoint seems to be based on the assumption that once all major nations have been cast adrift from a fixed gold standard the ensuing confusion in foreign exchange will make necessary an international agreement for currency stabilization and a consequent re-opening of foreign trade markets.

### *An Effectual Gold Strike*

This Institute, in its weekly bulletin of January 7, 1935, presented a chart showing world production of gold in relation to its normal long-term trend and in comparison with commodity prices over an eighty-year period. This chart was accompanied by an analysis of the effects on commodity prices of a rise above or a decrease below the secular trend line of the curve of world gold production. We expressed the opinion that prices had made a long-term low during 1932-33 and that the upward portion of a major commodity price cycle was ahead.

More convincing evidence of this has now reached our attention in reports concerning the possibilities for increased gold production as a result of air conditioning in the mines, particularly in the Rand, where these installations permit greatly increased production at the rich lower levels. A number of the large mines already have complete plants for air conditioning, and it is understood that manufacturers of such equipment are receiving many inquiries.

The California gold strikes and later the development of the South African mines initiated periods of rising commodity prices lasting between four and five decades. Air conditioning seems likely to have an effect on gold production similar to that occasioned by the discovery of new deposits, thereby augmenting the forces which are boosting commodity prices.

### *The Frazier-Lemke Act*

If it were not for the vitally important decision on NRA legislation, the Supreme Court's ruling on the Frazier-Lemke five-year farm mortgage moratorium would have received more attention. It substantially restores the sanctity of contracts. The absurdity of expecting capital to venture into mortgage risks, which may at will be invalidated by a simple act of Congress, should be apparent.

### *More Power for Muddling*

The muddle which political interference has already made of the nation's monetary and credit system should

serve as a warning against enactment of the Banking Act of 1935, which proposes to transfer to politicians even greater powers over the banking system. The forthright statement of Winthrop W. Aldrich, Chairman of the Chase National Bank, to the effect that the Banking Act contains the possibility of "a vicious and perhaps uncontrollable conflagration," deserves more attention than it will probably receive.

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

Foreshadowing all other developments in the past week has been the decision of the Supreme Court nullifying the NRA. That this will radically change the nation's commodity price structure is extremely doubtful. The long-term trend of commodity prices is upward. Free competition in the manufacture and sale of goods will make available to consumers more of the advantages derived from improved manufacturing methods. For this reason, increases in the cost of living may be more moderate than would otherwise be the case, and the result should be a resumption in the trend toward higher living standards.

### *Supply*

Since this is a time when supply commences its seasonal tapering off in response to the summer let-down in trade, it is not discouraging to note another small decrease in industrial production. The steel industry has registered a decline of one-half of one per cent. General manufacturing activity has fallen off slightly, although automobile production was stepped up substantially.

### *Demand*

Previous to the Supreme Court's NRA decision, demand had been well sustained. It is not unreasonable to expect a period of hesitation, but a sharp decrease is hardly to be anticipated. In fact, there is already evidence that the public may respond quickly to the lure of slightly lower prices.

### *Prices*

We have already expressed our opinion that the present price structure is in no danger of collapse. It should not be forgotten that the long term trend is definitely upward.

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"*The Boom Begins*," by Major Angus, Simon & Schuster. \$2.00.

This book is a vitriolic attack on those well known monetary experts, Professor Kemmerer and Mr. Warburg, as well as a somewhat incoherent exposition of the fact that inflation is already here. The present Administration may find the clamorings of Major Angus somewhat embarrassing, as is apt to be the case with too voluble friends. We recommend that clients save their two dollars.

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