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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Monopoly Inquiry

The body of testimony taken by the Temporary National Economic Committee (called the Monopoly Committee) has not been sufficient to indicate the probable tenor of the ultimate report. Dr. Lubin's excursion into the statistical fields of "might have been" and Mr. Leon Henderson's versions of monopoly-permeated industry have contributed little of a constructive nature.

The testimony of Dr. Willard Thorpe, as well as that of Edsel Ford, shows that neither free competition¹ nor complete monopoly actually exists. Even industries controlled by one corporation experience competition from the products of other industries (as in the case of the aluminum industry).

It is heartening to read reports from Washington that the Committee has not yet assumed that anyone engaged in private enterprise, even if his business is a large one, is necessarily predatory. If the Committee continues to occupy its time by accumulating factual evidence instead of baiting industrial leaders and indulging in remarks from the bench calculated to appeal to popular prejudices, the investigation will not be a deterrent to business initiative, even though the final conclusions may have no constructive influence on legislation.

A Return to Reason?

Recent utterances of the President indicate that he has not ignored the November elections. Of course, repudiation of the New Deal program of social reform would be suicidal for an Administration which relies for much of its support on the "have nots." However, the President's speech at Chapel Hill was more reserved and less denunciatory than most of his public statements in recent years. No gauntlet was thrown in the face of an alleged rapacious overprivileged minority, and there were no threats of new experimental ideas to be urged for passage when Congress convenes.

Perhaps it was even more of a relief to the public to find the President in a less belligerent mood. Instead of condemning the behavior of the Fascist nations, as had been widely expected, Mr. Roosevelt suggested that "the largest and most powerful democracy in the world" can accomplish most toward the maintenance of world order by giving an example of government by tolerance and compromise.

¹ See Chapter V, *Current Economic Delusions and Their Probable Future Effects*, by E. C. Harwood.

More recently, the President indicated that he may be turning away from a doctrine which has been fundamental in shaping important Government policies. He proposed that expenditures for national defense should be placed on a "pay-as-you-go" basis and said that pump priming would not be attempted by means of armament expenditures.

The trend toward reason has not been confined to the President's attitude. A recent speech by Senator Byrnes of South Carolina, reported by Arthur Krock of the *New York Times*, indicates that Congress may not only call a halt to more experimental reform legislation, but that influential opposition to Government spending may appear. Mr. Byrnes said, "Some people believe that to be 'liberal' means only to be liberal in spending the money of other people. If that be the correct definition, then I admit the political leaders of the South are not liberals. . . . The farmer of the South knows that debts must be paid." To paraphrase Mr. Krock's report, the speech is of unusual significance, because the Senator was formerly numbered among the steadfast supporters of the President's program.

WHITHER SOCIAL SECURITY?

The Social Security Act of 1935

Of the reforms initiated by the New Deal, the Social Security Act, as much as any other, bids fair to provide vexatious problems for the future. With a view to examining these problems, a series of articles on the subject, of which this is the first, is being prepared for publication in the Research Report bulletins.

The provisions of the existing Act are so involved that it is desirable to summarize its major objectives and the methods followed in obtaining them. The Act is divided into three parts, which can be briefly described as follows:

1. Old Age Pensions. An "Old Age Reserve Account" for the provision of old age pensions was established, and Congress regularly appropriates to it funds obtained from a special Social Security tax. With the exception of exempted occupations (which will be discussed later) all employees and all employers are taxed at the following rates:

Years	Per Cent of Pay Roll		Total
	Employees	Employers	
1937, 1938, 1939	1	1	2
1940, 1941, 1942	1½	1½	3
1943, 1944, 1945	2	2	4
1946, 1947, 1948	2½	2½	5
After December 31, 1948	3	3	6

Thus, during 1949, and thereafter, the nation's pay roll will be subject to an assessment for old age benefits of 6 per cent, 3 per cent of which the employer will ostensibly pay (although, in fact, most of it will have to be added to the cost of goods to the consumer) and 3 per cent of which will be paid by the employee.

As a corollary to the collection of these taxes, the Government assumes the following responsibility. An employee who attains the age of sixty-five will be entitled to receive an old age benefit based on total taxable wages received. This benefit ranges from a small lump sum payment for those with total taxable wages of less than \$2,000 to a minimum pension of \$10 per month up to the maximum pension obtainable of \$85 per month. Provision is also made for death benefits.

2. Unemployment Relief. Funds to meet unemployment benefits are raised by a pay roll tax of about 3 per cent assessed against all employers, with occupation exceptions similar to those exempted from the old age taxes. Most of this tax is paid to the States which have laws governing compensation for unemployment in accordance with Social Security specifications, and the States pay benefits through public unemployment offices or other agencies approved by the Board. A tax of .3 per cent of taxable wages is paid directly to the Federal Government and is used to defray the expenses of administration. The States are required to deposit the funds collected in a special fund which is in the hands of the United States Treasury. Unemployment benefits are established by the States. Although the Social Security Act limits taxes to employers having eight or more workers, statutes enacted by the States further broaden the scope of unemployment taxes. Eleven States tax employers having one or more workers, ten States establish the minimum at from three to five workers, and the remaining States conform to the limit of eight or more workers established by the Federal law.

3. Additional Provisions. In addition to the old age pension fund and the unemployment benefits, the Act contains other provisions which are intended to round out the Social Security program. These are financed by appropriations from Congress from general taxation, and provide payments for old age pensions (to those in need who do not receive the regular old age benefits), payments for dependent children, for the blind, and for public health work.

Stewardship after Three Years

Regular monthly reports are made by the United States Treasury, showing the revenue received under the Social Security taxes and the disbursements made. According to the latest figures reported, which are as of October 31, 1938, the Social Security administration has handled the following sums (to avoid confusion, data are given without considering items smaller than \$1,000,000, and small interest accruals are not included):

1. Old Age Pensions	
	<i>Grand Total to October 31, 1938</i>
Tax receipts (1% pay roll taxes on employers and on employees)	\$838,000,000
Appropriations by Congress	1,125,000,000

Benefits paid prior to the end of October were only \$9,000,000. The old age reserve account had a bookkeeping balance of \$1,135,000,000, including accumulated interest, of which \$766,000,000 represented assets

invested in 3 per cent special Treasury notes; and the remaining assets were unexpended balances of the appropriations, presumably to be invested as taxes are received during the remainder of the fiscal year.

2. Unemployment Relief. On October 31, 1938, deposits by the States of unemployment taxes collected had totaled \$1,298,000,000; withdrawals by the States were \$321,000,000. The remaining \$958,000,000 was invested in 2½ per cent United States certificates of indebtedness. In addition, the Federal Government collected \$162,000,000 in pay roll taxes on employers located where State laws were not operative. Administration costs of unemployment compensation had totaled \$76,000,000.

3. Additional Provisions. Large amounts have already been expended in carrying out the miscellaneous provisions of the Act. Sums appropriated by Congress have been disbursed as follows:

Old age assistance	\$406,000,000
Aid to dependent children	54,000,000
Aid to the blind	13,000,000
Child welfare services	19,000,000
Public health work	22,000,000
	<hr/> \$514,000,000

In addition to the \$766,000,000 already invested in Government bonds and the \$514,000,000 expended for the miscellaneous provisions of the Act, approximately \$45,000,000 has been needed for administrative expenses other than those pertaining to the unemployment benefit provisions. It is apparent, therefore, that \$1,325,000,000 has already been required for the purposes of the Act (exclusive of unemployment benefits) whereas tax receipts have been only \$838,000,000 (exclusive of taxes for unemployment benefits). If the American taxpayer believes that the Social Security taxes will approximately cover the costs of the benefits provided, he is obviously laboring under a serious delusion.

Although the Act provides for the establishment of an old age pension fund, called the Old Age Reserve Account, and an unemployment fund, these funds have been established only on a bookkeeping basis. Taxes collected under the provisions of the Act have been spent, just as other tax receipts have been, to meet current expenses of the Government. In order to make the books balance, Government notes and certificates of indebtedness have been issued to the funds. The result has been that Social Security taxes have partially financed the Federal deficits during the period in which they have been collected. Funds have been established only in the sense that approximately \$2,000,000,000 of the rapidly increasing public debt represents an obligation to the aged and the unemployed who will later be eligible for benefits.

Aspects Not Revealed by Balance Sheets

1. Old Age Pensions. This division of the Social Security program has been confined to tax collections, and virtually no benefit payments have been made. To date, the only lesson from experience with respect to the system for old age pensions is, what should have been obvious from the first, that a fund cannot be amassed from which future income can be drawn unless it is invested in assets which have earning power. The fund, as it stands at present, is merely a bookkeeping liability, and of course it contributes nothing to the earning power of the nation. However, it is becoming

more generally recognized that elimination of the reserve fund system will be inevitable, and that it must be superseded by a "pay-as-you-go" policy.

2. Unemployment Relief. At the end of 1938, statutes enacted by thirty-one States have provided for unemployment benefits. During 1939, all the States will have statutes which presumably conform to the Federal requirements for unemployment benefits. To date, receipts have greatly exceeded benefit payments, primarily because of a Federal requirement that no benefits may be paid by any State until unemployment taxes have been collected in that State for a period of two years, but there are other factors partly responsible for this. Unemployment benefit payments are small, and potential recipients frequently find it more profitable to apply for WPA work. In fact, a Social Security Board official in one State¹ frankly advised WPA workers against filing claims for unemployment insurance. The unemployment benefits which were intended to eliminate the "emergency relief" burden of the Federal Government have apparently had no appreciable effect on the WPA pay rolls, although this can be properly demonstrated only over a longer period of experience. What has been demonstrated is that the unemployment benefit system, as at present established, does not fare well in competition with the Government's "emergency relief" agencies.

3. Additional Provisions. The Federal Government has spent \$514,000,000 for old age assistance, child welfare, aid to the blind, and public health services. This division of the Social Security program has shifted some of the burdens formerly borne by local authorities to the Federal Government. Whether this work can be done more effectively by the Government or by local subdivisions is not yet known. It is another step toward political centralization.

The burden of Social Security taxes has already been onerous to industry. The taxes for unemployment benefits according to a high Administration official (Marriner F. Eccles, Chairman of the Board of Governors of the Federal Reserve System), have been a major contributing factor in causing the 1937 depression. Taxes based on pay rolls instead of on profits are inelastic, and must be paid as long as businesses maintain even a skeleton organization. The extent to which these taxes tend to discourage private enterprise is not yet known, but reports of tax delinquencies indicate that they are burdensome to industry as a whole and destructive to the marginal businesses.

The work of registering between 40,000,000 and 41,000,000 workers subject to Social Security taxes has been substantially completed, although it was originally estimated that only 26,000,000 would be eligible. An army of 4,000 clerical workers employed by the Federal Government alone, maintains the records pertaining to this huge registration.

Proposed changes in the Social Security program and the probable effects of the program on the nation's future will be discussed in subsequent bulletins.

BUSINESS

Commercial Confidence

No appreciable change in commercial confidence during October 1938 was revealed by comparing newspaper advertising carried during the month with that

¹ "Why Cheer for Social Security?" by Abraham Epstein. *Nation's Business*, December 1938.

carried during September. The aggregate October lineage was 113,600,000 in comparison with 103,900,000 during September. This increase in total advertising was seasonal in character, and the comparison with the corresponding month in 1937 remained about the same. Financial display advertising was the only class in which there was an increase during October 1938 over that of October 1937. This favorable showing may be attributed to the correspondingly stronger trend in the security markets.

Newspaper advertising lineage in the dailies of fifty-two cities during October 1937 and 1938, with the percentage declines of the latter in comparison with the record for the earlier period, is shown below:

Newspaper Advertising Lineage	October 1937	October 1938	Per Cent Decrease October 1938 From October 1937
	(Millions of Lines)		
Classified	24.9	22.4	10.0
Display			
Automotive	7.8	4.9	37.2
Financial	1.6	1.7	6.3*
General	23.0	18.4	20.0
Retail	77.8	66.1	15.0
	135.0	113.6	15.9

* Increase.

THE FUNDAMENTALS

Supply

There was a nominal decline in the steel ingot rate last week from 60½ to 60 per cent of theoretical capacity. This was smaller than the usual seasonal contraction, and reflects an improved demand in comparison with the situation in the corresponding period of 1937. According to the *Iron Age*, prospects for the industry are reassuring: "Year-end caution in steel buying does not obscure an improved outlook for business in the first quarter. The falling off in orders this month is not drastic, and operations may not decline much. Meanwhile, prospects that will build up mill tonnage early next year continue to accumulate."

	1927	1929	1932	1936	1937	1938
Per cent of capacity	61.0	69.0	17.0	75.0	30.0	60.0

(Latest 1938 data; corresponding week earlier years)

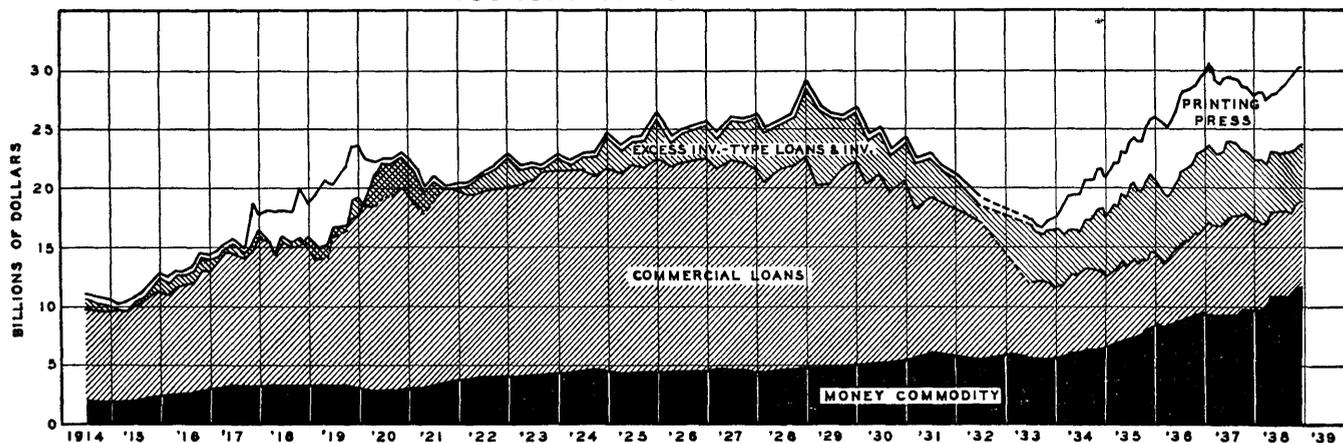
There was an improvement in the comparison of electric power production last week with output in the corresponding week of 1937. Output was 2,285,523,000 kilowatt hours, and was 6.2 per cent greater than it was in the corresponding week last year. The greatest gains were reported from New England, the Pacific Coast States, and the Middle Atlantic States.

	1927	1929	1932	1936	1937	1938
Billion kilowatt hours	1.60	1.81	1.51	2.64	2.15	2.29

The automobile industry produced 97,975 units last week, according to *Ward's Automotive Reports*. In spite of strike tie-ups at the end of the week, which reduced production somewhat, a high record was made for the week, and output was 14 per cent greater than it was in the corresponding week of 1937. All of the major producers increased their schedules, but the largest gain was reported by Chrysler Corporation.

	1929	1932	1936	1937	1938
Units (000 omitted)	31	12	104	86	98

SOURCES OF PURCHASING MEDIA



Although there was a moderate decline in cotton mill activity last week, it was smaller than the usual seasonal decline, and the adjusted index advanced from 122.2 to 122.7. The industry is now operating at a rate nearly 20 per cent higher than it was a year ago.

	1929	1932	1936	1937	1938
New York Times Index	103.2	105.4	134.0	103.0	122.7

A contra-seasonal increase in lumber production last week caused the adjusted index to advance from 64.7 to 69.4.

	1929	1932	1936	1937	1938
New York Times Index	121.8	34.5	74.8	56.8	69.4

Demand

The volume of retail trade appears to be expanding throughout the country in about the degree which is seasonally expected at this time. However, there is a general agreement among reports from merchants that customers are concentrating purchases on lower-priced articles. Although it is perhaps too early to give an accurate estimate of the volume of this year's holiday buying, a continuation of existing tendencies will result in the distribution of a greater physical volume of goods during December 1938 than during December 1937. The dollar volume apparently will be approximately the same or slightly less than that of last December.

Prices

Last week, the sensitive commodity price indexes, after early declines, advanced during the later sessions, although the losses were not wholly cancelled. Moody's Spot Commodity Price Index declined from 141.2 on November 30 to 140.0 on December 7. The Dow-Jones Index of Commodity Futures closed at 48.32 on November 30 and at 47.62 on December 7. The combined United States Bureau of Labor Statistics Wholesale Commodity Price Index remained virtually unchanged throughout November, but the farm products and food classifications advanced.

FINANCE

Sources of Purchasing Media

There was no appreciable change in the aggregate purchasing media available to the public during November. At the end of October, the total was estimated at \$30,295,000,000, and at the end of November, \$30,327,000,000. The estimated increase of \$32,000,000 was only about one thousandth of the total.

However, there were appreciable changes in the totals from the different sources. During November, the Treasury continued to monetize new gold purchased, and the purchasing media derived from the money commodity increased from \$11,504,000,000 at the end of October to \$11,774,000,000 at the end of November. This is a new high, and, even on the basis of the pre-devaluation dollar, would exceed the average for 1929 by approximately 40 per cent.

There was a substantial decrease in purchasing media from commercial loans during November. A decline is seasonally expected in that month, but there should normally be an increase during December.

There was a moderate increase in purchasing media from the third source (the banks' investment-type assets) as the result of an increase in bonds other than Government securities held by the banks as investments. The greater part of this increase accrued during the final week of the month.

As a result of the banks' disposing of a small portion of their United States Government issues during the month, there was less purchasing media from the fourth source. It is probable that the banks were preparing for the Treasury's mid-December financing, and, in disposing of some Treasury issues, were endeavoring to reduce the proportion of this type of security before subscribing to the new Treasury notes. The Treasury's announcement that \$700,000,000 of new borrowing will be made in December makes an expansion in aggregate purchasing media virtually assured. However, this may not occur during December unless a portion of the new funds obtained is spent.

SECURITIES

Bonds

There was no interruption in the decline in bond prices last week, although greater resistance to the downward trend developed. The Dow-Jones Average of Forty Bonds, which was 89.46 on December 1, was fractionally lower at 88.99 on December 8.

Stocks

Last week, stocks developed a firmer tone, and the volume of transactions increased. The market remains an investor's rather than a speculator's market.

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