

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

W E E K L Y  
B U L L E T I N

54 Dunster Street, Harvard Square - Cambridge, Mass.

March 11  
1940

## R E S E A R C H R E P O R T S

### COMING EFFECTS OF CURRENT EVENTS

#### *The Congressional Slate*

The session of Congress immediately preceding a presidential election usually avoids controversial measures. Congress appears to be running true to form this year, because fewer bills are pending than in any session of Congress since the New Deal came into power. Nevertheless, until Congress adjourns, there is always the possibility that some of the "sleepers" will awaken and become real issues of importance to the Nation. It therefore seems desirable to comment briefly on the present status of important Congressional bills including some that have not yet become prominent in debates.

#### *Appropriations*

There is one group of measures that must be dealt with before adjournment is possible; these are the appropriations bills. The House Appropriations Committee began work as soon as Congress convened, and a stronger sentiment for retrenchment than has existed in recent years resulted in recommendations for the curtailment of important items of the President's budget. Economies were recommended in allotments for national defense, for farm aid, and for some of the President's special Government "administrations," such as the TVA. The House has generally supported the recommendations of its committee. The New Deal is expected to rely on amendments in the Senate to undo the work of the economy bloc in the House. It appears probable that at least one of the important economies (the cut in the naval appropriation) will survive. There is less reason to believe that the largess for the farmers will remain curtailed. However, even if all economies are retained, the Government will spend more than \$8,000,000,000 during the 1941 fiscal year, for which receipts are estimated at about \$6,000,000,000.

Study of the Congressional Record indicates that the majority party is still sufficiently united to prevent the passage of amendments intended to restrict activities for which appropriations are made. More amendments of this type have been offered this year by the minority party than in any other session during the preceding seven years.

No important change in the Federal tax system is probable during this session of Congress. The budgetary position of the Government does not permit any decrease in levies, and a Congress facing a presidential election will be disinclined to add further to the tax burden. The only recommendation for a change made

by the President concerns the raising of additional revenue to meet increased expenditures for national defense. If the national defense appropriation is no larger or only slightly larger than it was last year, Congress may feel it unnecessary to raise additional revenue by taxation.

The question of raising the statutory debt limit from \$45,000,000,000 to \$50,000,000,000, as recommended by the Secretary of the Treasury, may also be avoided by the present Congress. The Administration has devices for continuing budgetary deficits without resorting to an increase in the national debt beyond the statutory limit and therefore may prefer to avoid making the question an issue at this time.

#### *The Hull Trade Program*

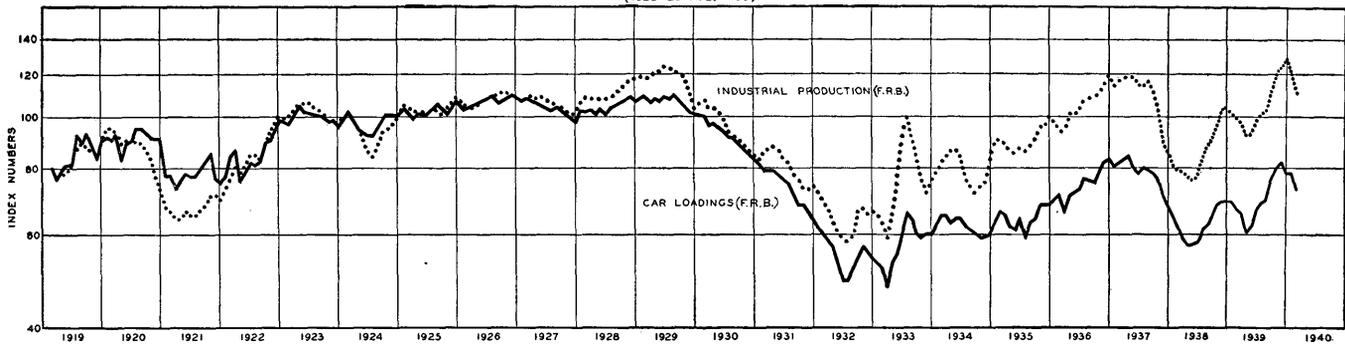
Next to the appropriation bill, the measure for extending the President's power to conclude reciprocal trade treaties with foreign powers has received the most attention in Congress. The measure has passed the House and will probably be acted on favorably by the Senate. As we have frequently pointed out in these bulletins, the program, if administered properly, is economically sound, and its continuation should not be considered an unfavorable development.

#### *Aid for Finland*

Primarily because the measure for increasing by \$100,000,000 the lending power of the Export-Import Bank was presented to Congress as a safe means for extending aid to Finland, this bill has been prominent in the news from Washington. The Senate has accepted House amendments thus virtually assuring enactment. We have already commented on the significance of partisan economic aid in modern warfare (page 13, January 22, 1940 weekly bulletin). The supposition that there is a "safe" way of helping Finland appears to be the product of sentiment rather than reason.

Of the new credit, \$20,000,000 of the \$100,000,000 is presumably to be loaned to Finland; the remainder will be available for other transactions. Although the Export-Import Bank was originally created to facilitate foreign trade through the extension of short-term credit, its actual operations are tending in the direction of long-term credits, which may become frozen. The terms of most of the bank's miscellaneous credits provide for repayment by installments to be completed in two to six years. One loan of \$10,000,000 specifies a ten-year installment period. The assumption of functions by the Federal Government ordinarily performed

CAR LOADINGS VS. INDUSTRIAL PRODUCTION  
(1923-25 AVE. 100)



by private banking management usually involves considerable losses to the taxpayer. If the additional credit is granted to the Export-Import Bank, the chances for loss of Government funds will be increased.

#### Other Enactments in Prospect

There are a few other bills that probably will be enacted during this session of Congress. Legislation to regulate competing forms of transportation, which failed to pass in the preceding session because of the differences between the House and Senate bills, may fare better in the present session. This measure is supported by both railroad management and by the powerful railroad brotherhoods. Amendments to the National Labor Relations Act and to the Wage-Hour Law, which were proposed in Congress last year, are again on the calendar. The latter law may remain unchanged, but the partisan character of the National Labor Relations Board revealed by the Congressional investigation may have paved the way for improving the Act. The House is scheduled to debate the NLRA amendments this week. Senator Wagner's proposal to establish a United States mediation board appears to be a red herring calculated to divert attention from the amendments. The Stream Pollution Control bill will probably be enacted this session. Federal cooperation with the states in this control appears to be desirable.

#### Bills Unlikely to Pass

A bill, which may reach the attention of the press but which is not expected to become a law, is the Walter-Logan bill to regulate Federal agencies. This was introduced in both houses and has been the subject of a report by the Brookings Institution, which charges that the bill, if enacted in its present form, would unduly circumscribe the administrative freedom of Government agencies. However, it is believed that the introduction of such a measure in Congress by itself will tend to restrain the more arbitrary actions of the administrators of the Federal regulatory agencies.

The Anti-Lynching Bill made its perennial appearance and was passed by the House with the confident expectation that it would be killed in the Senate.

The St. Lawrence Waterways project has again become an active issue, and the Administration appears to favor the conclusion of a treaty with Canada, by the terms of which the United States would agree to meet about one-half of the cost of the project. Canada, which was cool to the proposal before the war, now favors it as a war measure. There appears to be sufficient

opposition to the project in the United States to make confirmation of the treaty by the Senate doubtful.

For two or three weeks now, it has been rumored that the New Deal group in Washington would like to revive the essential features of the Works Financing Bill, which was killed by Congress in its preceding session. An increase in the rate of Federal spending would obviously serve the party in power during a presidential election year. However, the economy bloc now in Congress appears to have sufficient strength to prevent the enlargement of spending powers however carefully camouflaged the proposals may be. The belief expressed by Government economists that the present business recession will be short-lived impairs the argument for increasing the Government's spending rate in order to prevent a serious business collapse.

It appears probable that Congress will enact no measures that would be at all restrictive to business. On the other hand, there seems to be little chance that any substantial relief from Government restrictions previously imposed will be granted.

## BUSINESS

### Car Loadings vs. Industrial Production

The chart at the top of this page shows the trend of carloadings and industrial production during a period of more than two decades. The Federal Reserve Board's indexes were plotted for both carloadings and industrial production. The base, 1923-1935 monthly average equals 100, was used for both series.

The less favorable trend of carloadings in comparison with industrial production, which became evident in 1928, coincided with the development of truck competition in the carrying of freight. Previous to that year, the volume of freight carloadings closely paralleled industrial production. There was a general tendency for the two curves to diverge from each other progressively during the 1929-1935 period. The major cause of the divergence was the increasing use of truck transportation for short hauls of general merchandise, and this factor was probably emphasized during the worst of the depression, because the movement of heavy products required for capital-goods production was curtailed to a greater extent than was production of consumers'-goods; the latter can be moved more readily by motor-truck transportation. Production of heavy durable goods has been better sustained since the middle of 1935; and, during the past four or five years, the two indexes have not diverged so consistently as they did during the worst years of the depression.

Since truck competition became important a considerable share of the nondurable goods formerly carried by the railroads under the classification "merchandise in less-than-carload lots" and "miscellaneous freight" has been moved by truck. On the other hand, almost all of the raw materials and finished products of the durable goods' industries are sent by rail. Although the index of durable goods' production declined in 1938 to but slightly more than one-third of its 1937 high, the index of nondurable goods' production remained relatively steady. Apparently as a result of this, the carloadings index dropped below the 1934 low point in 1938, although the industrial-production index failed to do so.

As the chart shows, the two indexes of industrial production and carloadings have advanced at about the same rate since the late spring of 1939. Both indexes have recently declined. The decline in the carloadings index began one month earlier, in December, but has been less drastic than the decline in the industrial-production index.

A comparison of the classes of freight carried during February 1940 with loadings during February 1939 shows the following changes:

Classes	Percentage Increase February 1940 From February 1939
Total freight carloadings	8.9
Merchandise in less-than-carload lots	0.1*
Miscellaneous	11.9
Coal and coke	12.2
Grain and grain products	4.8
Livestock	...
Ore	8.8

\* Decrease

If, as is generally expected, industrial recovery is resumed in the spring, freight carloadings should also increase. Only one of the classes of goods shown is expected to show an unsatisfactory trend. Because of the poor prospects for the winter wheat crop, it is probable that carloadings classified as grain and grain products will be somewhat fewer this year. However, this class of freight has comprised only from 4 to 7 per cent of total goods loaded during recent years.

### Commercial Confidence

Newspaper advertising lineage reported for January 1940 reveals no essential change in business confidence, either during the turn of the year or since January 1939. The volume of all types of newspaper advertising carried during January 1940 was slightly greater than that placed during January 1939. A substantial increase in

automotive-display advertising was the only feature of the statistical comparison for January 1940 with the data for January 1939. The selling campaign undertaken by automobile distributors in January was apparently successful and resulted in an early upturn in the industry's activity.

Newspaper advertising lineage in the dailies of fifty-two cities during January 1939 and 1940, with the percentage decline of the latter in comparison with the record for the earlier period is shown below.

Newspaper Advertising Lineage Classified	January 1939 Millions of Lines	January 1940 Millions of Lines	Per Cent Increase January 1940 From January 1939
Automotive	2.4	3.9	62.5
Financial	2.3	2.3	...
General	12.8	12.4	3.1*
Retail	50.3	50.4	0.2
Total	87.4	88.0	0.7

\* Decrease

### Telephones in Use

The decrease in the rate of industrial activity during the first two months of the new year has had no appreciable effect on the rate of increase in the number of telephones in service. During February, more than 90,000 new telephones were added to a system having 18,650,000 instruments in use at the end of January.

The Institute's index of the number of telephones in service, adjusted for population growth, is expressed as a per cent of the 1926 monthly average. The index advanced from 122.0 in January to 122.5 in February. The index for each month in 1937, 1938, and 1939 and in January and February 1940 is shown in the accompanying table. The gains since 1937 are impressive.

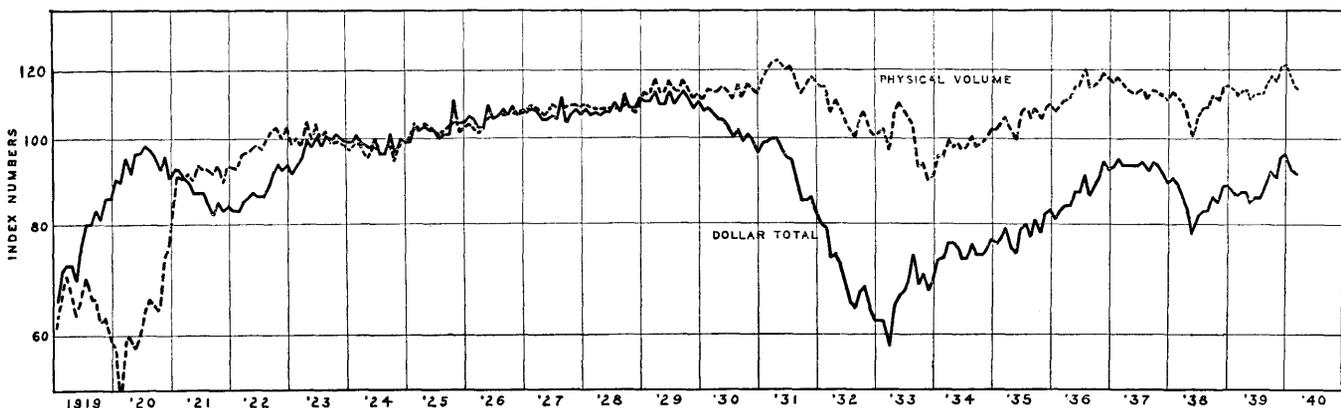
INDEX OF NUMBER OF TELEPHONE STATIONS IN SERVICE PER CAPITA PER CAPITA MONTHLY AVERAGE 1926=100

	1937	1938	1939	1940
January	108.0	113.6	116.9	122.0
February	108.3	113.7	117.2	122.5
March	109.1	114.2	117.8	
April	110.0	114.6	118.1	
May	110.4	114.8	118.7	
June	110.8	114.6	118.8	
July	111.0	114.6	118.9	
August	111.3	114.8	119.0	
September	112.0	115.4	119.6	
October	112.8	115.9	120.3	
November	113.0	116.2	120.7	
December	113.2	116.4	121.3	

### Department-Store Sales

The accompanying chart of department-store sales shows both the dollar total and the physical volume.

DEPARTMENT STORE SALES



A description of the indexes, together with a discussion of their fluctuation in the earlier years shown, was published in the October 23, 1939 bulletin, pages 198 and 199.

Both the physical-volume and the dollar-total indexes of department-store sales receded during the first two months of 1940, after establishing post-depression record high levels in December 1939. However, the rates of decline, as revealed by the slopes of both curves shown on the chart, were more moderate in February than in January. The decline in the index of physical volume was somewhat greater in both January and February than the decline in the dollar total. In each of these months, there was a fractional increase in the Fairchild Corporation's department-store retail price index.

Seasonal influences are important in the month-to-month volume of department-store sales, and seasonal adjustments must be changed each year, because Easter comes at varying times. Inasmuch as Easter will be two weeks earlier this year than it was in 1939, all of the Easter shopping will be completed this month. Consequently, a substantial gain in March department-store sales is virtually assured.

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate decreased from 65 to 63½ per cent of theoretical capacity last week. The curtailment was not uniform throughout the industry, slight gains in operations being reported from Chicago, Cleveland, and St. Louis districts. The *Iron Age* stated: "Although steel production continues to decline, the coming of March has brought a few encouraging signs. There is as yet no evidence of a strong upward trend in new business, but the moderate improvement noted a week ago has continued, thereby raising hopes that the recession of the past two or three months has been checked."

	1927	1929	1932	1937	1938	1939	1940
Per Cent Capacity	87.5	93.0	26.5	85.0	30.0	55.0	63.5

(Latest 1940 data; corresponding week earlier years)

There was a small but encouraging contraseasonal increase in electric-power production last week. The comparison with output in the corresponding period of 1939 was also improved. The best reports came from the Central Industrial and Rocky Mountain regions.

	1927	1929	1932	1937	1938	1939	1940
Billion Kw. Hours	1.54	1.70	1.52	2.20	2.04	2.24	2.48

The automobile industry remained active last week, although production failed by a small margin to equal output in the preceding week. The industry assembled 100,855 cars and trucks, as compared with a total of 102,670 in the preceding week.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	139	31	127	54	79	101

Cotton-mill operations were curtailed last week, when an increase was seasonally expected. In consequence, the adjusted index declined from 138.4 (revised) to 121.7. Early this year, the mills attempted to obtain higher prices for their products. The result was a prompt drying up in the flow of orders. Recently, price conces-

sions have been made, and it is reported that sales of gray goods are beginning to increase.

	1929	1932	1937	1938	1939	1940
New York Times Index *	88.7	134.5	86.2	120.0	121.7	

\* Not available until third week in March.

There was an increase in lumber production last week but it was slightly smaller than seasonal and the adjusted index declined from 83.2 to 82.0. At that level it was 13 per cent higher than it was a year ago.

	1929	1932	1937	1938	1939	1940
New York Times Index	130.0	37.3	78.8	62.1	72.5	82.0

### Demand

Consumer demand was somewhat stronger in the first week of March than it had been during the first two months of the year. The improvement, as indicated by reports from retail merchants, was greater in sections of the country where favorable weather conditions appeared. The Eastern Seaboard was less fortunate in this respect. Apparently, the downward trend of industrial production and of pay rolls has not seriously affected trade. Demand for new automobiles is especially good.

### Prices

The sensitive commodity price indexes were steady last week. Moody's Spot Commodity Price Index was 159.7 on February 29 and 159.7 again on March 7. The Dow-Jones Index of Commodity Futures closed at 59.53 on February 29 and at 59.99 on March 7.

## FINANCE

### New Capital Issues in Great Britain

Before the outbreak of the European war, we regularly published in the bulletins monthly series showing the value of new capital issues in the United Kingdom. The series last shown included data for August 1939. At that time the volume of new corporate offerings in Great Britain was increasing, and there were other statistical evidences of a strong upward commercial and industrial trend. The *London Times* has reported that, in contrast with an average of approximately £50,000,000 new financing during the last four months of 1936, 1937, and 1938, all of such issues during the first four months of the war totalled little more than £1,000,000. The *London Times* stated: "The figures effectively demonstrate the closeness of the war-time control of the market."

## SECURITIES

### Bonds

Average bond prices were slightly higher last week. The Dow-Jones Average of Forty Bonds was 88.71 on February 29 and 88.84 on March 7.

### Stocks

The stock market became more active last week, and prices were higher. However, the market is still in a "wait and see" mood.

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