

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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

September 9

1940

54 Dunster Street, Harvard Square - Cambridge, Mass.

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Is Hitler Less Confident?

The security markets in both New York and London responded more favorably to Hitler's speech in Berlin's Sportpalast than they did to the preceding day's announcement of the exchange of fifty United States destroyers for naval bases. Apparently, speculators and investors detected in the German leader's somewhat incoherent utterance the hint that England is too tough a nut to crack this fall. Therefore, it seems worth while to examine the speech to find how it differs from others Herr Hitler has made before and during the war.

In discussing the bombing of German cities by the Royal Air Force, Hitler stated that its raids must be carried out at night because of Germany's superior defense against aerial attack; whereas, German bombers raided England by daylight. He accused Britain of indiscriminate bombing, while German attacks were confined to military objectives. After threatening to increase the air attack on England far beyond the capacity of retaliation, he stated: "The hour will come when one of us cracks, and it will not be Socialist Germany." This statement implied that the outcome of the war would be determined by air forces rather than by invasion.

Research Report subscribers will remember that in an analysis of the European situation published in the July 8, 1940 bulletin, it was stated in summary, "at the risk of having the suggestion rendered ridiculous by near-future events, we believe that the possibility of no invasion of England should be kept in mind." This conclusion was based on the following factors that Hitler has probably considered:

1. Because of the loose political ties that bind the British Empire—capitulation of England would not give Hitler any claims on the dominions. The status of the colonies under such conditions might be different.

2. Defeat of England would not necessarily mean surrender of the British Navy to Germany.

3. Hitler is certain of a free hand in Europe; he now has much to lose.

4. If the best part of the German Army suffered a disastrous defeat in England, Hitler might find it difficult to cope with dissatisfaction at home; uprisings in nations he has already conquered, and the attempts of Russia to find borders that can be defended against Germany.

5. Apparently, a prompt resumption of normal economic activities in Europe, insofar as that is possible, is

desirable in order to prevent widespread famine during the coming winter.

None of these factors have been resolved in Hitler's favor during the intervening two months; whereas, he is now confronted, by strong resistance by England to aerial invasion and to an apparent lack of progress in impairing the effectiveness of the Royal Air Force, by the short season of favorable weather for invasion now remaining, and finally, by the increased assistance given to England by the United States.

A second point in Hitler's speech that presumably aroused greater confidence in the chances for British resistance was his reference to the possibility of five more years of war. "The British asserted that they were preparing for a three years' war. But at that time I said to Reich Marshal Goering: 'Prepare everything for five years.' We did not act thus because I believed the war would last five years. But whatever may come, England will break down." Apparently, Hitler is preparing the German people for an extended campaign.

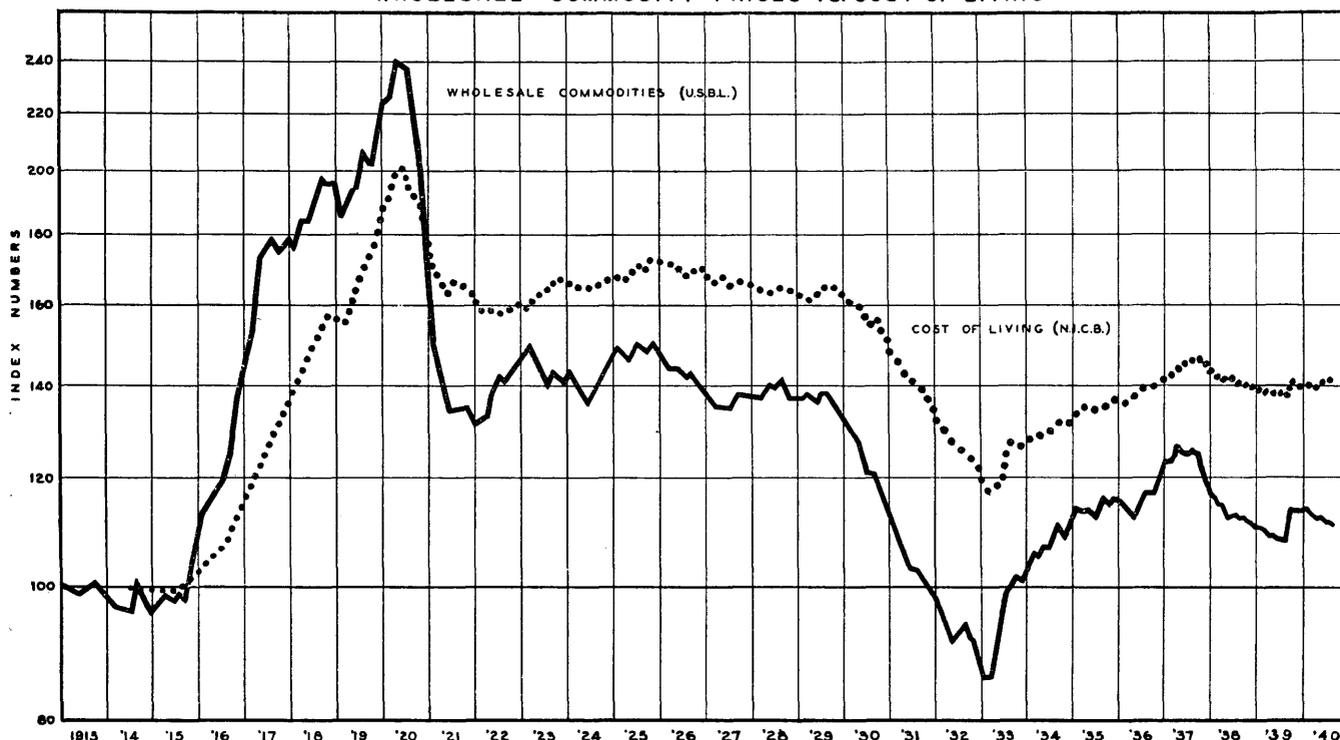
Finally, the sentence in Hitler's speech that may be construed most favorably to the British cause is, "We are ready for everything, no matter what Britain is planning." This so obviously lacks the spirit of initiative that has characterized the German leader's public declarations during the successful Continental campaigns as to suggest that he now fears a struggle similar to that which followed Napoleon's subjugation of Europe.

Excess Profits?

The slogan, "take the profit out of war," was an outgrowth of the once popular viewpoint that the munitions' makers were the world's war-mongers. This viewpoint became popular, partly because it provided an additional argument for the parlor pinks in their advocacy of socialism, and partly because it helped the public to find a scapegoat, without which most people are never content to suffer the consequences of their own folly. It came to be widely believed that "taking the profit out of war" would be an important preventive of war.

With this background of circumstances, it is not surprising that there apparently has been popular support for the present Administration's attempt to tax "excess" profits. However, it is now clear that the tax legislation contemplated is not merely an attempt to recapture the profits derived from preparations for war; it goes far beyond that and will aid the New Deal trend toward socialism by further modification of our competitive-enterprise system.

WHOLESALE COMMODITY PRICES VS. COST OF LIVING



In our economic system, large profits may be the results of monopoly advantages, of exceptional managerial ability, or of temporarily favorable supply-demand relationships. There is no question about the duty of the Government to regulate monopolies and, if necessary, recapture their excess profits by taxation. Such handling of monopolies is essential to the proper functioning of the competitive-enterprise system, either in peace or war.

Presumably, the profits that appear as a result of exceptional managerial ability, where there is little or no monopoly advantage, provide the necessary incentive for the application of such talents. It is desirable, in the interests of industrial preparedness as well as to promote a rising standard of living, that efficient management be encouraged and, more important, that it be given control over the larger volume of capital that is naturally attracted by better-than-average profits. By destroying the incentive for such management, or by discouraging the flow of capital to the places where it can be used most efficiently, we shall weaken our economic system rather than strengthen it.

The large profits that reflect temporarily favorable supply-demand relationships serve as the corrective of a situation temporarily not in the buyer's interests. Such profits invite more competition and provide the means for existing firms to expand their facilities and enlarge the supply of the much desired goods, as well as cheapen their price if the enlarged production makes the introduction of mass-production methods possible. Thousands of small but growing corporations, whose average profits for 1936-39 were relatively small, will be most adversely affected by the proposed excess profits taxes. Yet it is primarily to these "growth" industries that we must look for a solution of our unemployment problem. Furthermore, one of these, at least (the aviation

industry), has a vital part to play in the national defense.

These facts and relationships suggest that the proposed excess profits taxes, like much other New Deal legislation, have either been too hastily prepared, or there is a hidden intent to hamper and sabotage our economic system. We do not imagine that the President is a willing party to any such "fifth-column" activities, but we strongly suspect that some of his advisers are so imbued with the vision of a "planned society" that their judgment in such matters cannot be trusted.

Wholesale Commodity Prices vs. Cost of Living

The comparison of wholesale commodity prices with the cost of living is of special interest at present because living costs have increased during the spring and summer months although the wholesale commodity price average was declining. Any wide movements in wholesale prices, unless temporary, are of course reflected in living costs. However, the relationship between wholesale prices and the cost of living has changed radically over an extended period of years.

The accompanying chart shows that this has occurred within the past twenty-five years. During the World War period, wholesale commodity prices rose more rapidly than did living costs. However, since 1920, the cost of living has constantly remained at a higher level in relation to the pre-war average, although the minor fluctuations have followed approximately parallel trends. Referring now to the short-term movements, not only does the cost-of-living curve appear to lag the curve of wholesale commodity prices, but fluctuations have been less extreme. This relative steadiness of the cost-of-living curve is attributable to the stability of prices of items other than food.

The solid line in the chart on page 156 shows the United States Bureau of Labor Statistics' Index of Wholesale Commodity Prices. The dotted line portrays changes in the Cost of Living Index compiled by the National Industrial Conference Board.

There are five component groups of the Cost of Living Index. The combined index is made by multiplying the indexes in the group by their respective weights, adding the products and dividing by the sum of the weights. The components, together with the weights given each item, are as follows:

Food	33	Fuel and Light	5
Housing	20	Sundries	30
Clothing	12		

The food item is the most responsive to changes in wholesale prices. There is a lag of a few months before retail clothing prices reflect changes in the cost of the wholesale commodities involved. Nearly a year is required for wholesale commodity price changes to influence the cost of housing. Consequently, rents continued to decline after the upturn in wholesale commodity prices and do not advance immediately after building costs have increased. The cost of sundries and of fuel and light items is relatively stable. Neither of these components declines so much as wholesale commodity price nor rises so far above the long-term trend during a period of rising prices.

The increase in wholesale commodity prices during September 1939 was more substantial than any one-month increase since the 1933 inflationary boom. There was a much less extensive rise in the cost of living in that month, but wholesale prices have since lost about two-thirds of the September 1939 advance; whereas, living costs are now higher than the best level reached in 1939.

Indirect taxes imposed on consumers' goods have unquestionably been a factor in maintaining living costs at a higher level in relation to the 1913 average than wholesale commodity prices. More taxes of this type have recently been imposed and have probably been an important, if not the determining factor, in increasing living costs at a time when wholesale commodity prices were decreasing. It therefore appears probable that the cost of living will continue to increase at least moderately during the remainder of the year even though the wholesale commodity price average remains within a narrow range.

BUSINESS

Commercial Confidence

Managers of commercial enterprises were evidently no more confident in July than they were in June. Total newspaper advertising lineage again failed to measure up to that inserted during the corresponding month of 1939. Classified advertising and automobile display advertising were the only types to show an

Newspaper Advertising Lineage	July 1939 (Millions of Lines)	July 1940	Per Cent Decrease July 1940 From July 1939
Classified	20.6	21.2	2.9*
Display			
Automotive	3.5	3.6	2.9*
Financial	2.1	1.8	14.3
General	14.0	13.0	7.1
Retail	45.2	44.8	0.8
Total	85.4	84.4	1.2

* Increase

improving trend. However, there was only a fractional decrease indicated by the important retail classification.

Newspaper advertising lineage in the dailies of fifty-two cities in July 1939 and July 1940, with the percentage increase of the latter compared with the records of the earlier period, is shown in the accompanying table.

THE FUNDAMENTALS

Supply

The decrease in the steel-ingot production rate last week from 90½ to 82 per cent of rated capacity was caused by Labor Day shutdowns. The *Iron Age* stated: "All indicators point to the probability of extreme activity during the remaining four months of this year. Exports of iron and steel, which have been of growing importance in the industry's high operations, set an all-time high of 707,800 gross tons in July, which made the seven-months total 3,478,423 gross tons. National defense requirements continued to expand and are now accounting for a considerable share of current steel bookings. So far as the national defense program is concerned, steel companies feel that the buying movement has just begun.

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	87.5	12.0	73.0	41.0	59.0	82.0

There was an increase in electric power production last week and the comparison with output in the corresponding period in 1939 was more favorable than it was in the preceding week.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.68	1.47	2.32	2.15	2.36	2.60

The automobile industry has not yet been successful in overcoming engineering difficulties that must be met before production schedules are reached. The industry increased production last week from 23,732 units to 27,645.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	91	20	64	22	24	28

Cotton-mill activity increased contraseasonally last week, and the adjusted index advanced from 132.6 (revised) to 135.7. It is reported that the industry has resisted successfully the demands of wholesale establishments for price concessions, and customers are apparently becoming reconciled to the existing price level.

	1929	1932	1937	1938	1939	1940
New York Times Index	119.4	94.0	134.5	118.7	124.0	135.7

There was a greater-than-seasonal decrease in lumber production last week and the adjusted index declined from 85.1 to 83.0.

	1929	1932	1937	1938	1939	1940
New York Times Index	130.2	35.1	81.8	75.7	76.1	83.0

Demand

The American public abandoned its conservative buying policies last week and purchased consumer goods in the greatest volume since early last spring. Fresh confidence in the future was apparent, especially in the large urban centers in the eastern and central portions of the country where sales were from 13 to 27 per cent greater than they were last year at this time. Sales in the South and in the Pacific Coast states were less satisfactory.

Prices

The trend of the sensitive wholesale commodity price indexes was upward last week. Moody's Spot Commodity Price Index advanced from 152.1 on August 29 to 156.8 on September 5. The Dow-Jones Index of Commodity Futures closed at 50.28 on August 29 and at 51.85 on September 5.

FINANCE

Defense Spending Begins

Federal outlays for national defense were greatly accelerated during the last part of August. In the August 26, 1940 bulletin, we pointed out that the progress of the national defense program was slow. National defense expenditures during the first twenty-one days of August showed a smaller rate of gain from the corresponding period of 1939 than did the July figures. Expenditures during the final ten days of the month were so great that, during the full month of August, there was an increase of 64.1 per cent in national defense expenditures compared with such expenditures during August 1939, although there was an increase of only 55.8 per cent shown by a similar comparison for July.

SECURITIES

Bonds

There was steady improvement in bond prices last week, and the Dow-Jones Average of Forty Bonds advanced from 88.48 on August 29 to 89.54 on September 5. After the serious decline in May, the bond market advanced consistently during June, and thereafter fluctuated within a restricted range until the last week in August when the current upward movement started.

Stocks

The stock market took on a new lease of life last week, and higher prices were accompanied by an increase in the volume of transactions. Both the industrial and railroad groups were strong, and the leading railroad stocks were in special demand. The railroad companies will presumably obtain a substantial increase in freight tonnage from movements of the heavy products requisite for the rearmament program but will be less seriously affected by taxes than the successful industrial companies if the contemplated emergency surtax program is passed by Congress.

Among other data of possible significance that are charted each month by the Institute's statistical staff is a three-months' moving average of the volume of transactions on the New York Stock Exchange. This average last month declined to the lowest level recorded since 1918. When this average has dropped to an abnormally low level in the past, it has signaled the initiation of a substantial advance in stock prices. This of course is not conclusive evidence that a vigorous bull market is beginning, but it at least can be included among other significant indicators having forecasting value.

SOURCES OF BUSINESS INFORMATION

SELECTED BIBLIOGRAPHY

IMPORTANT SOURCES OF CURRENT REPORTS

Agricultural Situation Reports, United States Department of Agriculture. Monthly (50 cents).
The Annalist. Weekly (\$7.50).
Barron's. Weekly (\$10.00).

Commerce Reports, United States Government Printing Office. Weekly (\$2.50).

Commercial and Financial Chronicle. Weekly (\$18.00).

Crops and Markets, United States Department of Agriculture. Monthly (\$1.00).

Domestic Commerce, United States Department of Commerce. Three times each month (\$1.00).

Dun's Review. Monthly (\$4.00).

Federal Reserve Bulletin. Board of Governors of the Federal Reserve System, Washington, D. C. (\$2.00).

Journal of Commerce (New York). Daily (except Sundays and holidays) (\$15.00).

Monthly Labor Review, United States Department of Labor (\$3.50).

Monthly Summary of Foreign Commerce, United States Department of Commerce (\$1.25).

New York Times. Daily (\$17.00).

Research Reports. American Institute for Economic Research. Weekly (\$25.00).

Survey of Current Business, United States Department of Commerce. Monthly (weekly supplements) (\$2.00).

Trend of United States Foreign Trade, United States Department of Commerce (\$1.00).

Wall Street Journal. Daily (except Sundays and holidays) (\$18.00)

STATISTICAL AND REFERENCE BOOKS

Annual Report of the Board of Governors of the Federal Reserve System.
Annual Report of the Comptroller of the Currency, United States Government Printing Office (\$1.50).

Ayer, N. W., and Sons Directory of Newspapers and Periodicals (\$15.00).

Business Information and Its Sources, Compiled by M. C. Manley. Special Libraries Association (\$1.00).

Business Magazines: Classified by subject. Newark Public Library (\$1.00).

Business and the Public Library. The Special Libraries Association, 354 Hudson Street, New York City (\$2.00).

Common Stock Indexes, 1871-1937, by Alfred Cowles III and Associates. Cowles Commission for Research in Economics (\$6.00).

Cost of Living in the United States, 1914-1936, by M. Ada Deney. National Industrial Conference Board (\$2.50).

Federal Reserve Charts. Board of Governors of the Federal Reserve System (50 cents).

Foreign Commerce and Navigation of the United States. United States Department of Commerce (\$2.25).

Guides to Business Facts and Figures. Special Libraries Association (\$1.75).

Handbook of Commercial and Financial Services. The Special Libraries Association (\$2.00).

An Index to Business Indices, by Davenport & Scott. Business Publications. Incorporated. Chicago (\$3.00).

The Making and Using of Index Numbers, by Wesley C. Mitchell. United States Bureau of Labor Statistics Bulletin No. 656 (20 cents).

Market Research Sources, United States Department of Commerce (25 cents).

Sources of Current Trade Statistics, United States Department of Commerce (25 cents).

Special Libraries Directory. The Special Libraries Association (\$2.00).

Statistical Abstract of the United States, United States Government Printing Office. Issued annually (\$1.50).

Statistical Indicators of Cyclical Revivals, by Wesley C. Mitchell and Arthur M. Burns. The National Bureau of Economic Research (25 cents).

No attempt has been made in compiling this selected bibliography to list sources covering restricted fields because information can be obtained from the reference books named. For example, *Sources of Current Trade Statistics* and *Guides to Business Facts and Figures* specify the current Government and other periodicals and reports relating to business. *Business and the Public Library* lists the leading trade periodicals, and complete coverage can be obtained from *Ayer's Directory of Newspapers and Periodicals*. Access can be had to most of the current reports and statistical and reference books listed in our selected bibliography in the large public libraries.

American Institute for Economic Research is a non-political, non-commercial organization engaged in impartial, economic research.