

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Limited Mobilization vs. Business

Among the many uncertainties that confront business men during the present acute international crisis is the extent to which the National Guard call and the military draft will affect the normal flow of goods and services. Will the transfer of 600,000 or 700,000 men from civilian to army life within the next seven or eight months curtail the volume of business so appreciably as to affect profit opportunities? We believe that, unless mobilization plans are greatly expanded, there should be little or no adverse effect on trade from this source. On the other hand, the stimulating effect on trade from industrial pay rolls expanded as the production of supplies for the Army is expedited should prove to be a favorable factor of great importance.

The induction into service of a relatively small portion of our potential man power is not comparable to a total mobilization, such as that occurring in France at the outbreak of the war. Complete mobilization would no doubt have a paralyzing effect on trade. The United States has never experienced the mobilization of its entire man power for national defense, although in 1917-1918 nearly 4,000,000 men were subject to military service. At that time, there was a substantial decrease in the physical volume of goods distributed through the private channels of trade. However, prices were advancing so rapidly that this effect was obscured by an increase in the dollar volume of trade.

The circumstances today differ in important respects from those of twenty-three years ago.

1. During the World War, there were scarcities of essential commodities that restricted their consumption by the civilian population; there are no such scarcities today.

2. As at present contemplated, our Army will consist of no more than 1,200,000 men at any one time. These will presumably be quartered in the United States where they will continue to be purchasers of domestic goods and services.

3. Most of the members of the National Guard are now employed, and, as they are called for service, new jobs will presumably be created for those now unemployed who will then be able to increase their living standards.

4. It is our understanding that the administration of both the National Guard call and the compulsory

military training call will avoid unnecessary disruptions of the Nation's economy. Because of the exemptions being granted to registrants who have dependents, the number whose incomes are affected by the draft will be limited to those actually called.

It therefore appears probable that, if the expansion of our national defense organization is limited to the extent that has been publicly announced, no adverse effects on commercial activity need be feared.

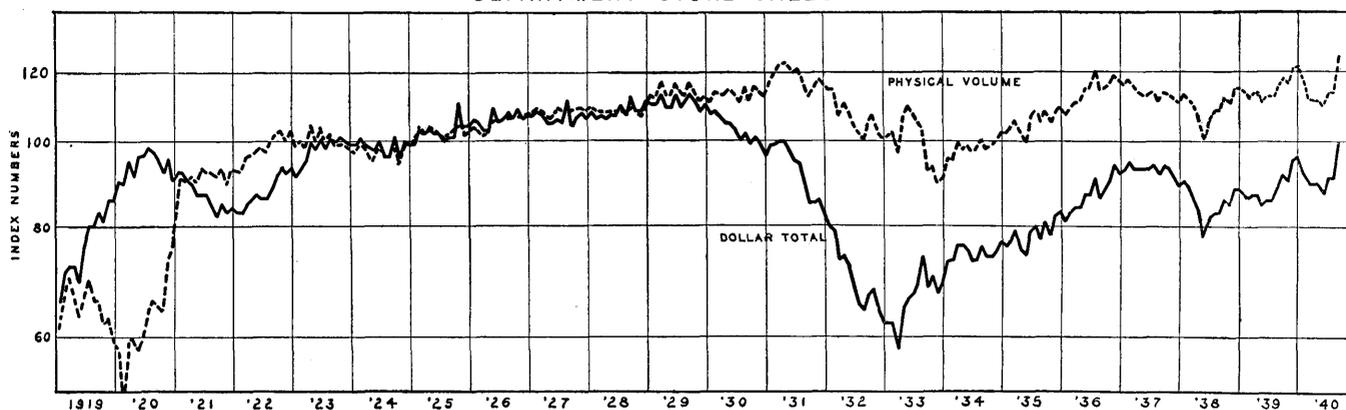
The Maine Returns

The results of the Maine State election held September 9 have been hailed by Republican leaders as a conclusive forecast of a Willkie victory in November. On the other hand, proponents of the third term have dismissed the vote in the stronghold of Republicanism as meaningless. Political analysts have evolved the theory on the basis of historical averages that a Republican majority in the Maine election greater than 2 to 1 indicates success for the Republican presidential candidate, but that less than a 3 to 2 majority indicates a Republican defeat. A majority of slightly less than 2 to 1 was obtained by the Republican combined vote for Governor and Senator. Therefore, although the results justify more hope for Mr. Willkie, they are hardly conclusive.

There were two aspects of the election that may modify the implications to be drawn from the figures. First, rains were general throughout Maine on election day, thus favoring the urban vote that has a larger proportion of the Democratic element than has the rural vote; second, Governor Brann, the contender in the senatorial contest, was a public figure of unusual popularity among members of both parties throughout the State. These two factors tended to give a more-than-normal advantage to the Maine Democratic party this year.

Although the Maine elections cannot be viewed as definitely forecasting the outcome of the presidential election, it seems certain that Mr. Roosevelt will not obtain an overwhelming victory comparable to that of 1936. The size of the Republican majority in Maine shows that the trend against the New Deal that was evident in 1938 is now running still more strongly. Whether or not it will reach or pass the "break-even" point may be more clearly revealed as the campaign progresses.

DEPARTMENT-STORE SALES



The Omnibus Transportation Bill

Congressional approval of the measure generally known as the Omnibus Transportation Bill completes a program that was begun more than six years ago. The present measure is in the form of amendments to the Interstate Commerce Act. The amendments provide among other things for the creation of a three-member board to study plans for the coordination of all types of transportation, grants authority to the Reconstruction Finance Corporation to provide funds for railroads to purchase their own bonds at a discount, and eliminates some of the preferential rates on Government shipments. A provision that is considered more important than these, from the point of view of the railroads, grants to the Interstate Commerce Commission jurisdiction over rates of water carriers by rivers, canals, and coastal routes. Railroad executives and others who are especially concerned with the industry will find an explanation of the major provisions on pages 17,848-51 of the *Congressional Record*, September 9, 1940.

It is not expected that these amendments will immediately affect the earning power of the railroads. Intricate legal problems are involved, and many hearings will be held by the Interstate Commerce Commission examiners before a beginning can be made in appraising the effects of the new measure. In fact, it is not yet clear whether the railroads have benefited from the regulation of highway common carriers provided for by Congress five years ago.

The amendments that were recently enacted safeguard shippers' interests to a greater extent than was proposed in the original measure introduced three years ago. If regulation of water carriers improves the competitive position of the railroads, it will not provide an "opportunity to force up the rates of water carriers and thus drive traffic to the rails." In spite of the many modifications suffered by the measure as it was originally proposed, it seems probable that the railroads will be the recipients of any benefits that may result.

BUSINESS

Department-Store Sales

During August, the Federal Reserve Board's index of department-store sales, which is based on dollar totals and is adjusted for seasonal variations, reached the highest level attained since April 1931. After declining from 96, the high reached in December 1939, the

index declined to 87 in May 1940, advanced to 91 in June, remained at that level during July, and advanced to 100 in August.

The accompanying chart, in addition to presenting the Board's index based on dollar totals, shows the physical volume of department-store sales (obtained by adjusting the dollar totals for changes in retail department-store prices). During August, the index of the physical volume of sales reached the highest level recorded during the twenty-year period of the statistical series. Price increases have been only moderate during the past year; the Fairchild Index of Department-Store Prices has advanced four per cent during the past twelve months, but this increase has apparently failed to discourage consumer goods' purchases as a rapid increase in retail-store prices would no doubt have done.

Unless prices of consumer goods increase more rapidly during the coming fall and winter than they did during the preceding active selling period, new high records in both the dollar total and physical volume of department-store sales may be expected. The Government's armament program, the effects of which are only now beginning to be observed, has stimulated sales in industrial communities. The movement will surely broaden during the next few months.

Telephones in Use

The usual summer lull in the telephone business was not apparent in August this year when there was a net station gain of approximately 70,000 instruments in service. The Institute's index of the number of telephones in service, adjusted for population growth, recorded substantial advances during each of the months following the outbreak of the European war until confi-

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	123.1
April	110.0	114.6	118.1	123.6
May	110.4	114.8	118.7	124.3
June	110.8	114.6	118.8	124.2
July	111.0	114.6	118.9	124.3
August	111.3	114.8	119.0	124.8
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	

dence was shaken by the French collapse. Then there was a slight decline in the index, from the May to the June level, and there was only a slight advance in the index during July. The substantial gain recorded by the August index suggests that the rate of increase followed during the earlier months of the war has again been resumed.

The index of telephones in service for the first eight months of 1940 and for each month of the preceding three years is shown in the table on page 160.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced last week to 92½ per cent of theoretical capacity from the rate of 82 per cent that prevailed in the Labor Day week. The *Iron Age* described the situation as follows: "National defense requirements are spreading in total volume and in the number of products affected. For example, wire nails, which have not been in good demand, will be benefited by the purchase of several thousand tons for construction of Army cantonments. Stainless steel, which, on the other hand, is very active, will be spurred by Army and Navy requirements, which include 100 tons for spoons for the conscription army. Manufacturers engaged in nonmilitary work are becoming impressed by the longer deliveries which mills are now quoting on a number of products and, accordingly, are maintaining their steel inventories at an average of about 90 days. On those products which are in greatest demand, deliveries range from five to six weeks to two months."

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	86.0	15.0	79.5	45.0	71.0	92.5

Electric-power production last week made a less favorable comparison with output for the corresponding week in 1939 than was recorded in the preceding week. A year ago at this time, electric-power output was increasing rapidly as a result of the business boom that accompanied the outbreak of the war.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.68	1.44	2.15	2.05	2.29	2.46

Automobile output increased from 27,645 units in the preceding week to 39,665 last week. If production schedules are realized, the industry may produce nearly 100,000 cars and trucks during the final week of September.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	104	22	59	17	27	40

Cotton mill activity remained unchanged last week when a seasonal decrease was expected. The adjusted index advanced from 135.7 to 138.4. The volume of new orders coming to the cotton mills is now greater than it has been since September 1929. Private customers are endeavoring to cover their requirements before production for the Government interferes with delivery schedules.

	1929	1932	1937	1938	1939	1940
New York Times Index	116.6	100.0	132.5	115.8	128.1	138.4

Lumber production decreased last week and the seasonally-adjusted index declined from 83.0 to 80.9.

	1929	1932	1937	1938	1939	1940
New York Times Index	134.8	35.9	83.2	72.0	76.2	80.9

Demand

The volume of retail trade in general last week showed gains in dollar volume even over the corresponding week in 1939 when the war boom was beginning. In contrast with an increase in dry goods' sales, grocery sales were less than they were a year ago. It will be remembered that there was panic buying of sugar, canned goods, and other food products last year, because the public feared that shortages might result from the war. Manufacturers' and wholesalers' inventories increased only slightly during July and are somewhat smaller than they were last winter. In relation to the existing active demand, inventories appear to be moderate.

Prices

The sensitive wholesale commodity price indexes remained about unchanged last week. Moody's Spot Commodity Price Index was 156.8 on September 5 and 156.2 on September 12. The Dow-Jones Index of Commodity Futures closed at 51.85 on September 5 and at 51.16 on September 12.

FINANCE

New Capital Issues

The trend of the volume of new capital issues of corporate securities will be observed with especial care during the period when national armament demands will place a strain on industrial capacities. Even before corporate executives definitely learned the character of the Federal Government's policies for administering the program, there had been some increase in new capital flotations and a considerable increase in negotiations for the marketing of new issues.

The par value of all new capital issues for August was \$68,000,000. This was the second-largest monthly total recorded in 1940, being exceeded only in May. Judging by the type of corporations seeking new funds, it is apparent that borrowing for plant expansion for the production of armaments has not yet been extensive. Twenty-one per cent of the new security offerings made during August was by the railroads; 45 per cent, by the public utilities; and 34 per cent by industrial and manufacturing companies.

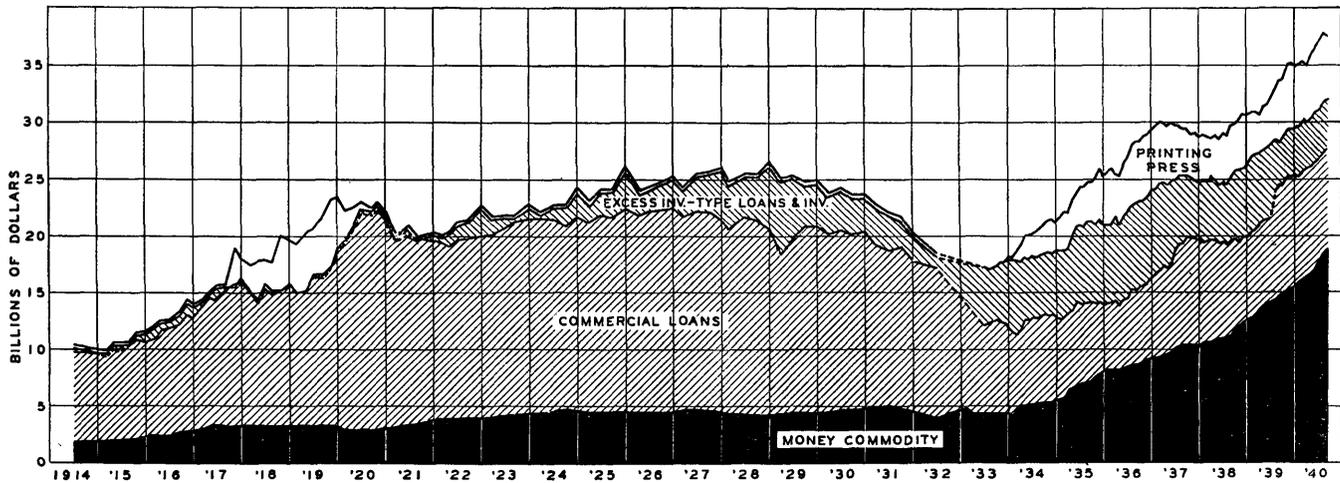
New corporate financing in August and in the first eight months of each year during the past fifteen years is shown in the accompanying summary.

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	First Eight Months	
	August	Months
	(In Millions of Dollars)	
1926	176	3,062
1927	256	3,354
1928	180	3,137
1929	310	4,664
1930	122	4,035
1931	46	1,468
1932	26	249
1933	14	126
1934	8	127
1935	30	186
1936	171	691
1937	51	961
1938	125	617
1939	25	291
1940	68	375

Source: *Commercial and Financial Chronicle*

SOURCES OF PURCHASING MEDIA



Sources of Purchasing Media

During August, there was a decrease of approximately \$200,000,000 in purchasing media available to the public. This resulted partly from increased Federal taxation and partly from the sale of Government securities to holders of private and institutional savings. Through these processes, Government bank accounts were increased substantially, and these funds were temporarily withdrawn from circulation.

Purchasing media from the money-commodity source increased \$400,000,000 last month. Although very substantial, this sum was less than it has been during recent months. Additions to the Nation's monetary gold stock were \$800,000,000 during June and \$500,000,000 during July. Net gold imports in August were only \$350,000,000, the smallest total since April. A small portion of the foreign gold held under earmark by the Federal Reserve Banks was released during the month.

There was a moderate decrease in the purchasing media derived from commercial loans last month.

During August there was a decrease in purchasing media derived from the third source (an excess of investment-type assets representing tangible property with respect to the savings available to the banking system). The commercial banks' holdings of both Government-guaranteed and "other" securities decreased approximately \$150,000,000 during the month.

As we explained in the first paragraph of this discussion, there was a substantial decrease in purchasing media from the fourth source. At intervals during the past year, the Government has withdrawn substantial sums from private and public accounts by the creation of Federal debt and by social-security and income-tax demands. These deflationary processes have proved to be of short duration and have altered the upward trend in the volume of purchasing media available to the public only for brief periods.

As was mentioned in last week's bulletin, Federal outlays for national defense have been accelerated, but disbursements have not been so great as might be expected in view of the recent announcements of huge contract awards for the Army and Navy. Inasmuch as actual payments are made only on completion and acceptance of the less durable supplies for the Army and on completion of stated proportions of the more

substantial contracts, such as naval vessels, great increases in national-defense spending may not be apparent in Treasury statements until about ninety days from the date of the signing of the contracts. It is therefore possible that the inflationary effects of the defense program will be limited during the fall months and will not become pronounced until winter.

SECURITIES

Bonds

The upward trend in the bond market that was followed from the middle of August to the end of the first week in September was checked last week, although there was no serious decline. The Dow-Jones Average of Forty Bonds was 89.54 on September 5 and 88.95 on September 12.

Stocks

Fluctuations in the stock-market price averages last week appeared to reflect changes in the prospects for successful defense of England. Until active operations across the Atlantic are suspended for the winter, the Battle of England will probably continue to be an important influence affecting the stock market.

RECOMMENDED BOOKS

"*Economic Geography*," by Colby and Foster, Ginn & Company, Boston. (\$1.92).

Designed as a text for American students, this book emphasizes the American viewpoint, but the economic life in other countries is adequately described. *Economic Geography* is divided into seven sections. The first deals with the world as a whole, and the other six discuss major regions, such as Tropical America, Western Europe, Southern Hemisphere regions, and so forth.

This well-written book will assist the reader in acquiring a comprehensive understanding of the world's economic activities. An especially useful feature of the book is a series of maps indicating the location of the various resources and industries.

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