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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Political-Economic Trends

Last week, in discussing Mr. Willkie's views on the standards established by the Wages and Hours Act, we mentioned that he had not specifically advocated Government control over such standards. In his Seattle address, however, he said, "I stand for minimum wages and maximum hours, and for legislation to enforce them." It is still possible, however, that he is referring to legislation intended to safeguard the health of those incapable of protecting themselves, and that he really does not favor the economically unsound and arbitrary standards now in effect.

In an earlier address, at Los Angeles, Mr. Willkie pointed out that, "The mainspring of economic activity in this country is provided by private initiative, by men going into business and risking success or failure." Then he asserted, with regard to the New Deal, that, "It has experimented with policies and adopted attitudes calculated to weaken enterprise and to carry us step by step toward a completely regulated economy."

It is our considered opinion that, regardless of the intentions that may have been involved, the present Administration has been driving straight toward Socialism or something comparable thereto. Certainly, the road via huge budget deficits and government paternalism is a dead-end street in which it becomes more difficult to turn around the farther one proceeds; and at the end is economic and social disaster. This assertion is not based on the theories of the academicians but on the hard facts of bitter experience as recorded in the history of every nation that has tried this course of action.

Finally, Mr. Willkie is right when he asserts that our unwise tax system is partly responsible for the continuing depression. It is high time that the business man be recognized for what he is, society's chief benefactor, and that every reasonable means be adopted to encourage his initiative and reward success in order that properly managed businesses may expand and will readily find the capital needed to do so.

THE FUNDAMENTALS

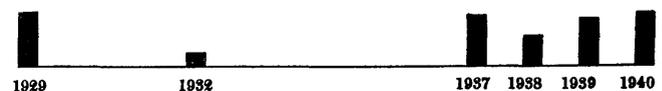
Industrial Production

The Institute's Index of Industrial Production, reproduced in chart form on page 169, shows that the rate of manufacturing activity increased more during August than it did during September. The preliminary

index for September at 107.5 is the highest reached since the reaction from the business boom that followed the outbreak of war a year ago. The Institute's Index of Industrial Production is adjusted for long-term trend, as well as for seasonal variations. The bar charts in the lower left-hand corner of the industrial-production chart show the volume of industrial production (not adjusted) at significant periods from 1900 to the present time. The solid black bar charts included in the discussion that follows show comparable data for each September during the years indicated.

Although the steel industry operated at a slightly higher rate during September than it did during August, steel tonnage produced in the two months was virtually unchanged, because there were fewer working days in September than in August. Steel-ingot production was 10 per cent greater than it was in September 1939, when the rate was advancing rapidly.

STEEL-INGOT PRODUCTION



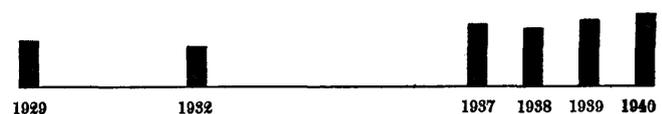
Last week the *Iron Age* summarized the current situation in the steel industry in the following statement: "Steel-ingot production, though possibly headed for higher ground when orders become more evenly distributed as to plants and products, is stationary this week at 93 per cent. Gains in some districts are balanced by losses elsewhere."

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	82.0	15.0	77.0	47.5	84.0	93.0

(Latest 1940 weekly data; corresponding week earlier years)

Production of electric power during September exceeded the output for September 1939 by approximately eight per cent. The bar charts portraying electric-power output for the month of September of the years specified reflect the favorable long-term trend of power sales.

ELECTRIC POWER OUTPUT



Electric power generated last week was approximately the same as that produced in the preceding week. As

in other recent weeks, reports from the Central Industrial Region were the most favorable.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.79	1.49	2.27	2.15	2.45	2.63

Automobile production in September exceeded that in any corresponding month since 1929. The industry's favorable showing this year is at least partly accounted for by the scheduling of new-model assemblies at an earlier date than ever before in the history of the industry.

AUTOMOBILE PRODUCTION

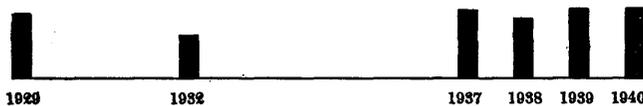


Last week, the motor industry assembled 78,820 cars and trucks, compared with production of 63,240 during the preceding week. Preliminary reports of retail sales for the first half of the month indicated that the volume was rising more slowly than was expected on the basis of earlier market analyses.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	100	19	28	20	55	79

Cotton-mill production during September was about five per cent greater than it was in August and was about the same as it was in September 1939 when the industry was also active. As the bar charts show, the industry's operations are more stable than are those of the metal industries.

COTTON-MILL ACTIVITY



Daily average cotton-mill activity increased more than seasonally last week, and the adjusted index advanced from 139.7 (revised) to 140.2. The mills have been able to maintain prices and even to obtain somewhat higher prices for certain types of finished goods.

	1929	1932	1937	1938	1939	1940
New York Times Index	112.5	105.4	133.0	114.3	139.3	140.2

Lumber-mill operations increased during September, and the rate was approximately nine per cent higher than that prevailing in September 1939. The bar charts indicate that the lumber-production trend has been only moderately favorable in recent years.

LUMBER PRODUCTION



Last week lumber production increased contraseasonally and the adjusted index advanced from 84.8 to 88.1.

	1929	1932	1937	1938	1939	1940
New York Times Index	120.6	35.5	85.0	77.7	79.4	88.1

The Harwood Index of Inflation

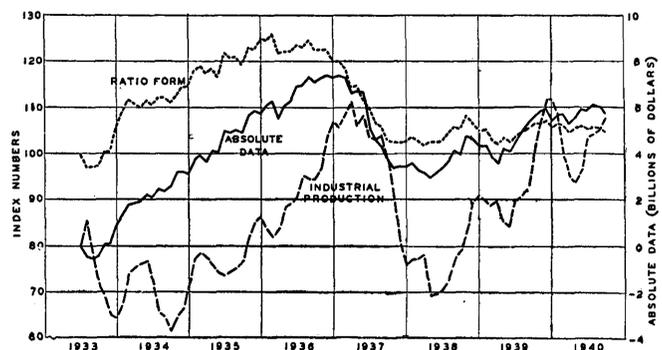
There was a decline of one point in the Index of Inflation for September from the August index, 105.6 (revised) to 104.6 (preliminary). Since March 1940, the index has been revised in accordance with more ade-

quate data provided by the June 30 bank call for all member banks of the Federal Reserve System. The revised index follows the same general pattern as did the preliminary index but at a somewhat lower level because of the divergent policies of the city and country banks. The city banks are predominant among the reporting member banks of the Federal Reserve System, on which preliminary estimates of the Harwood Index of Inflation are based. There has recently been a tendency for the country banks to reduce their investment holdings while the banks in the large cities have been increasing theirs. The revised index shows that, although there has been no important change in the bank-credit situation during 1940, the trend toward inflation that was apparent during the period March-November 1939 has since been followed by a moderate deflationary movement.

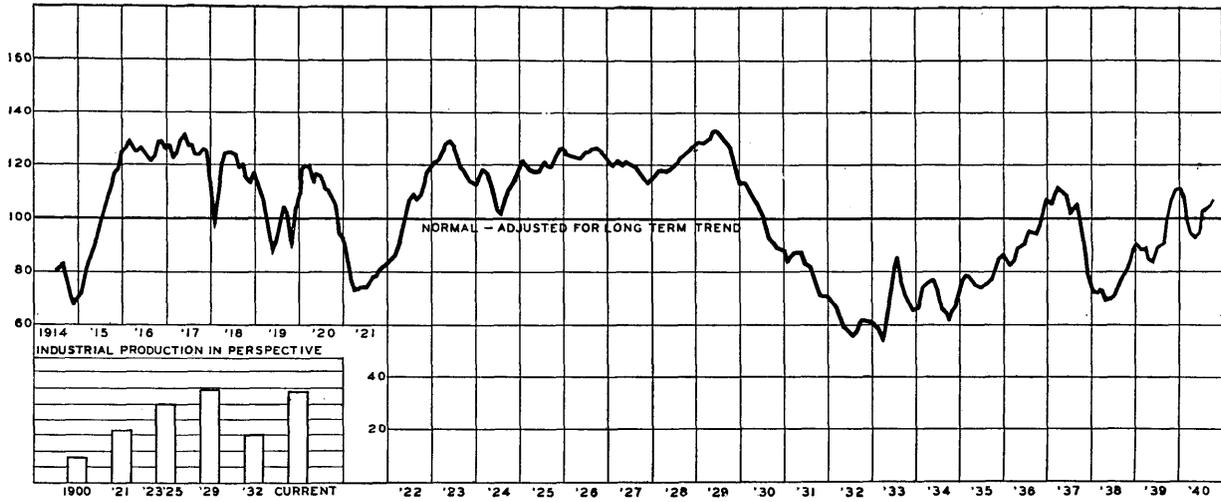
The Harwood Index of Inflation is primarily a means for measuring the difference between the investment-type assets of the banking system and the savings-type liabilities with which they are normally balanced. Inflation is defined as the condition arising when banks or other agencies, such as the Treasury printing press, have created purchasing media in excess of that required to represent goods produced that are currently coming to market. The ratio form presented in the chart on page 169 shows the relationship between all purchasing media available for use and that portion of the total that is not inflationary.

Primarily as a result of decreases in the commercial banks' holdings of Government securities last month, there was a reduction of approximately \$300,000,000 in the inflationary purchasing media available to the public from that in use during August. This was apparently a result of United States Government Treasury policies. During recent years, credit trends in the United States have been influenced primarily by Treasury operations. Late in July, the Government replenished its cash-working balances by new borrowing in the amount of \$670,000,000. About \$300,000,000, or nearly one-half the total, was acquired by the commercial-banking system. During recent weeks, the banks have been distributing these issues to their customers, apparently in preparation for another extensive financing operation contemplated by the Treasury. The Government has not yet reached a point in its rearmament program demanding extensive outlays for national defense. During the first twenty-three days of September, Treasury receipts exceeded expenditures by \$55,000,000. This situation, although deflationary, must be temporary in view of the Government's huge spending plans.

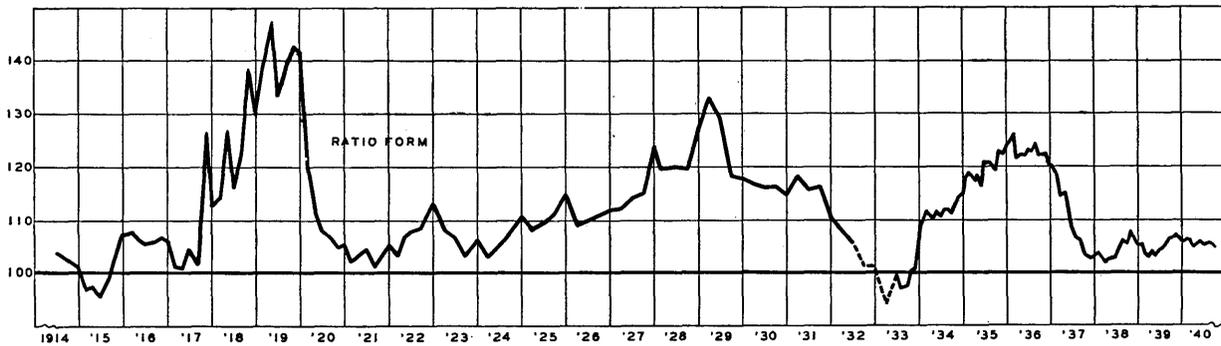
HARWOOD INDEX OF INFLATION, RATIO FORM, ABSOLUTE DATA, AND INDUSTRIAL PRODUCTION



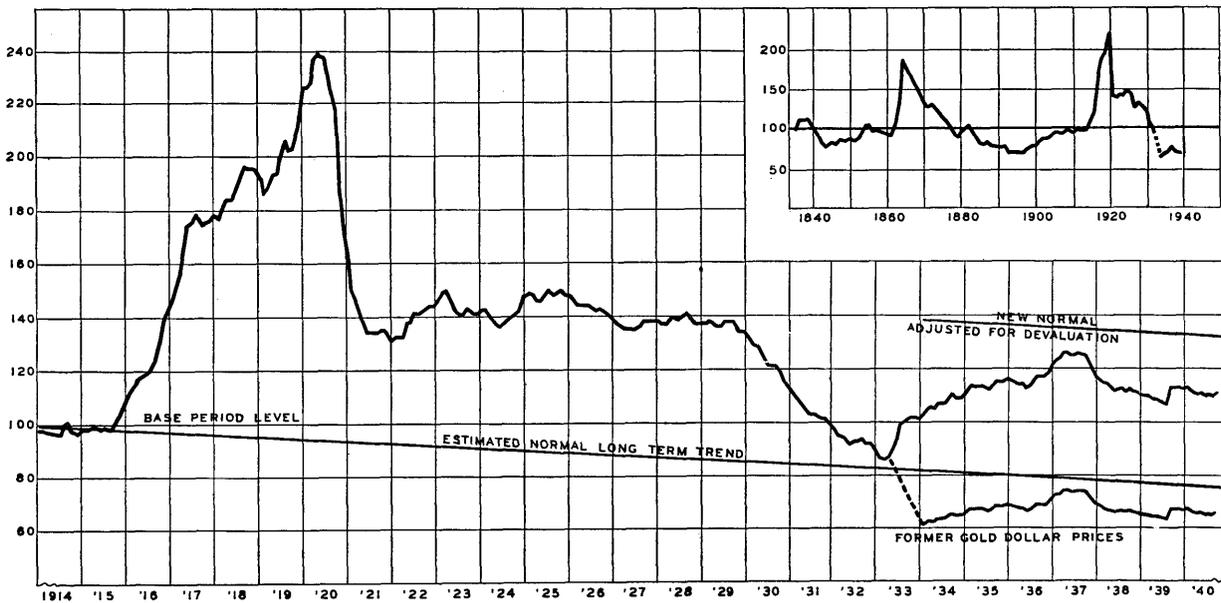
INDUSTRIAL PRODUCTION



HARWOOD INDEX OF INFLATION



COMMODITY PRICES



The chart on page 168 presents the absolute data and industrial production, as well as the ratio form of the index. The absolute data for the Index of Inflation are the actual totals of inflationary purchasing media in circulation from time to time. It will be observed that the amount of inflationary purchasing media are now somewhat greater than they were at the beginning of the year, although the index in ratio form is slightly lower. The difference in the trend of these two curves is caused by the increase in purchasing media from gold imports during the spring and summer at the time of acute crisis in Europe.

It is highly significant that the marked recovery in manufacturing activity attained since April has been accomplished without credit expansion. This indicates that the present situation is less vulnerable than the recovery of 1936-1937, when the degree of inflation was great, and suggests the possibility that the recovery movement may be sustained for a longer period without an important reaction.

Other Demand Factors

There was no appreciable change in the volume of retail trade last week. Department-store sales were maintained at the relatively high levels reached during the latter part of the summer. Comparisons with sales during the corresponding week a year ago, when there was a rush to make purchases in anticipation of higher prices, were of course somewhat less favorable. Prospects for trade expansion are better than they were a month ago when an early British defeat was more generally feared. Foreign demand, although coming from fewer customers and concentrated in a more restricted variety of commodities, is continuing in large volume. Export data published last week by the Department of Commerce show that there was an increase of 40 per cent in the dollar volume of exports in August from the value in August 1939. Exports in August 1940 were valued at \$350,000,000, the largest for any August since 1929, when the total was \$381,000,000.

Commodity Prices

The United States Bureau of Labor Statistics' combined index of wholesale commodity prices advanced from 110.6 in August to 111.6 (preliminary) in September. This index, which is shown in chart form on page 169, is a weighted average of 817 commodities adjusted so that the 1913 monthly average equals 100 (also shown on the former gold basis since January 1934, when the dollar was devalued.) The estimated normal long-term trend line and the new normal long-term trend

line, adjusted for devaluation, are features of the chart. The small chart in the upper right-hand corner of the commodity price chart shows changes in commodity prices during the past century on the basis of the former gold dollar.

The combined index, which was 107.5 in August 1939 advanced to 113.5 in the month following; and, in spite of the normal reaction that followed so rapid a commodity price advance, approximately two-thirds of the increase has been retained. All of the three major economic classes, raw materials, semimanufactures, and finished goods participated in the advance in prices during September. Only two of the principal subdivisions of the wholesale commodity price index resisted the upward trend. The index for "house furnishings" was unchanged, and the "miscellaneous" classification declined fractionally. The accompanying table shows changes that have occurred in the major classifications of the index. The September 1940 preliminary indexes are compared with the revised indexes of earlier significant periods.

UNITED STATES BUREAU OF LABOR STATISTICS
WHOLESALE COMMODITY PRICE INDEX
(Monthly Average 1913 = 100)

	Sept. 1929	Sept. 1932	Sept. 1939	Aug. 1940	*Sept. 1940
Farm Products	149.1	68.7	96.1	91.9	93.4
Foods	160.9	96.3	117.0	109.3	111.1
Hides and Leather	162.4	106.0	144.6	143.0	144.8
Textile Products	156.7	99.5	125.1	125.1	125.5
Fuel and Light	134.9	115.5	118.8	117.0	117.1
Metals and Products	110.5	88.2	93.4	104.5	105.0
Building Materials	169.0	124.3	160.3	164.4	166.5
Chemicals and Drugs	116.8	90.9	105.4	95.4	95.8
House Furnishings	167.5	130.9	152.0	160.0	160.0
Miscellaneous	119.1	92.7	109.7	109.5	109.3
Raw Materials	143.8	81.7	105.5	101.2	102.5
Semimanufactures	126.2	81.0	109.2	102.5	103.3
Finished Goods	136.9	101.4	118.0	117.0	117.9
All Commodities	137.7	93.6	113.3	110.6	111.6

* Preliminary Estimate

The sensitive wholesale commodity price indexes last week continued the gradually rising trend followed since the first week of the month. Moody's Spot Commodity Price Index was 157.3 on September 19 and 159.0 on September 26. The Dow-Jones Index of Commodity Futures closed at 51.60 on September 19 and at 52.74 on September 26.

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Statistical Summary; Production, Purchasing Power, and Prices

	1939				1940								
	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.*
Index of Industrial Production..	100.0	107.1	111.8	112.1	109.0	100.9	95.5	93.4	96.1	103.3	104.0	105.0	107.5
Index of Inflation (ratio form) ..	106.7	106.7	107.3	105.5	106.5	106.2	104.4	105.4	106.0	105.2	105.8	105.6	104.6
Commodity Price Index.....	113.5	113.8	113.6	113.5	113.8	112.3	112.3	111.9	112.3	111.0	111.2	110.6	111.6
Commodity Price Index.....	67.2	67.3	67.2	67.2	67.3	66.7	66.4	66.2	66.5	65.7	65.8	65.4	66.0

(In terms of former gold dollar)

*Preliminary Estimate.