

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Political-Economic Trends

In her hour of need, England sought and found a man whose ability, energy, and judgment commanded the confidence of his intimates and the general public. Winston Churchill is an outstanding statesman of the world, and his opinions regarding affairs in the United States, especially because he has no political axe to grind, deserve thoughtful attention. Mr. Willkie wisely selected from Mr. Churchill's writings of recent years the following quotations:

"The Washington administration has waged so ruthless a war on private enterprise that the United States . . . is actually . . . leading the world back into the trough of depression. . . . The effect has been to range the Executive of the United States against all the great wealth producing agencies of the capitalist system. . . .

"Even in time of peace the economic and financial policy of the United States may exercise an appreciable check upon the war preparations of potential aggressors.

"Economic and financial disorder in the United States not only depresses all sister countries, but weakens them in those very forces which might either mitigate the hatreds of races or provide the means to resist tyranny. The first service which the United States can render to world causes is to be prosperous and well armed.

"The warfare between big business and the Administration continues at a grievous pitch. These great forces do not seem to realize how much they are dependent upon one another. The President continues blithely now to disturb, now to console, business and high finance. He blows hot, he blows cold, and confidence does not return. Immense use is made of the national borrowing power for relieving unemployment which would largely cure itself, if even for a single year the normal conditions of confidence were restored.

"Party politics invade every aspect of economic life. The authority and prestige which spring from the great armament of a free people may be undermined by financial and political disorders.

"But we must hope that other counsels will prevail."

Mr. Willkie then argued that, if other counsels did not soon prevail, our economic system would continue to be hampered and unable to contribute as it should to the strength of the democracies. This is a sound argument that should be given careful thought by those who are confused regarding the importance of our economic

contribution toward the armament of the democracies.

In another speech a few days later, Mr. Willkie defined the principal issue as a choice between turning back from the road to Socialism or continuing until the State becomes all-powerful, precisely as it is in Germany, Italy, Japan, and Russia. There is no doubt that the latter choice will mean economic retrogression here, as in those unfortunate countries. Private enterprise may continue for some time, as it has in Italy and Germany, but the blundering hands of government bureaucracy have never been able to direct an economic system with the wealth-producing efficiency that has characterized our approach to the competitive-enterprise system.

THE FUNDAMENTALS

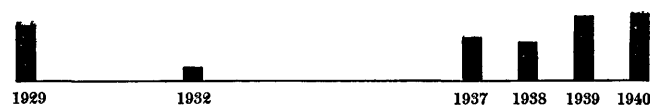
Industrial Production

Industrial activity continued to increase during the latter part of September; consequently, the Institute's preliminary index for that month was revised from 107.5 to 108.0. The preliminary index for October is 109.0. The Institute's Index of Industrial Production is shown in chart form on page 185; for data, see page 186.

Industrial activity has been increasing from month to month since April, and the expansion has been substantial, although it has not equaled the rapid improvement experienced during the final four months of 1939. The Institute's index, which is adjusted for long-term trend as well as for seasonal variations, is about three per cent below the December 1939 level, which slightly exceeded the high for 1937.

Steel-ingot production in October 1940 was greater than that for October in any of the other years shown in the bar charts below, although it was only slightly more than the total for October 1939 when the industry was just attaining the operating rate that resulted in record high tonnage for the final quarter of the year. Steel-ingot production was 5,078,000 short tons in October 1929; it was 6,041,000 in October 1939; and it is estimated that, in October 1940, production will be more than 6,100,000 short tons.

STEEL-INGOT PRODUCTION

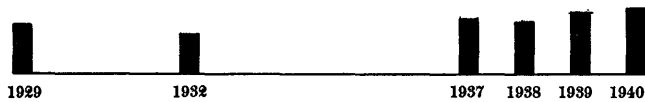


Last week, the steel-ingot production rate advanced another point to 95½ per cent of theoretical capacity. The *Iron Age* stated: "Major steel companies are unable to promise deliveries of some products during the remainder of this year unless they come within the preference classification accorded to defense work. While defense requirements are a direct and indirect influence in current steel bookings, a preponderance of the orders being received are for non-military purposes. Although a huge volume of defense contracts has been awarded at Washington and by ordnance districts and arsenals, the actual ordering of steel is in many instances delayed because of the lack of detailed specifications. Much of this business will necessarily go over into first quarter or later."

	1929	1932	1937	1938	1939	1940
Per Cent of Capacity	80.0	20.0	65.0	54.0	92.0	95.5
	(Latest 1940 weekly data; corresponding week earlier years)					

Production of electric power during October exceeded the output for October 1939 by approximately seven per cent. Because of the development of new uses for electric power, the industry's production has a more favorable long-term trend than the output rate of most other leading industries, and, as the bar charts show, production during October 1940 exceeded that for any of the other corresponding periods in preceding years.

ELECTRIC POWER OUTPUT

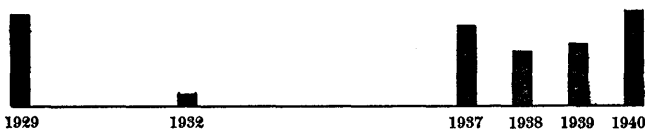


Electric-power production last week maintained about the same rate of gain from output in the corresponding week of 1939 that was shown in previous weeks of October. The most favorable comparison was reported from the Central Industrial region.

	1929	1932	1937	1938	1939	1940
Billion Kilowatt Hours	1.80	1.53	2.28	2.21	2.49	2.69

Production schedules of the automobile companies were advanced so rapidly early in October that output for the month not only exceeded that for October 1937, when the industry was enjoying its best postdepression year, but also exceeded production in October 1929. Because of the unusually early scheduling of new models, it is possible that the recent high production rate has been at the expense of production later in the season.

AUTOMOBILE PRODUCTION



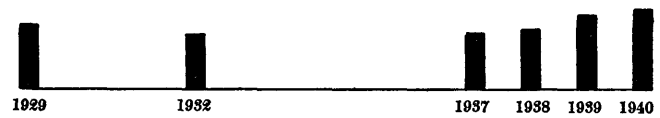
The automobile companies last week produced 114,672 units, compared with output of 108,457 in the preceding week. Production was 55 per cent greater than it was at this time last year, when there was a strike in progress that tied up the Chrysler Company's plants.

	1929	1932	1937	1938	1939	1940
Units (000 omitted)	82	13	92	68	70	115

Cotton-mill activity during October reached the highest level recorded in any October of the years shown on the bar charts. The industry enjoys a more stable volume of demand than the metal trades, but it does not

possess the favorable growth factor of the electric-power industry.

COTTON PRODUCTION

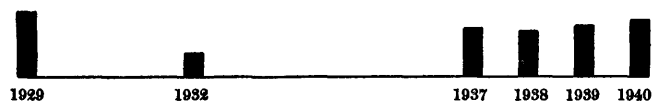


Last week, there was a contraseasonal increase in cotton-mill activity, and the adjusted index advanced from 138.5 to 142.9. The statistical position of the industry has recently improved, and mills have been able to obtain small price advances. The mandatory reduction of the work week from forty-two to forty hours (with time and a half for overtime) will probably make additional price increases necessary.

	1929	1932	1937	1938	1939	1940
New York Times Index	113.0	105.4	105.4	113.0	133.5	142.9

Lumber output during October 1940 showed only a moderate improvement over the volume for October of the preceding three years. Apparently, stocks of lumber were sufficiently great to meet the initial demand for cantonment construction. Stocks of both hardwoods and softwoods were being reduced during the summer months, according to reports made by the United States Department of Commerce. Recent statistics are not yet available, but it is probable that stocks are being further depleted.

LUMBER PRODUCTION



Lumber production increased last week and the adjusted index advanced from 84.7 to 85.6.

	1929	1932	1937	1938	1939	1940
New York Times Index	124.0	36.8	78.3	75.3	82.2	85.6

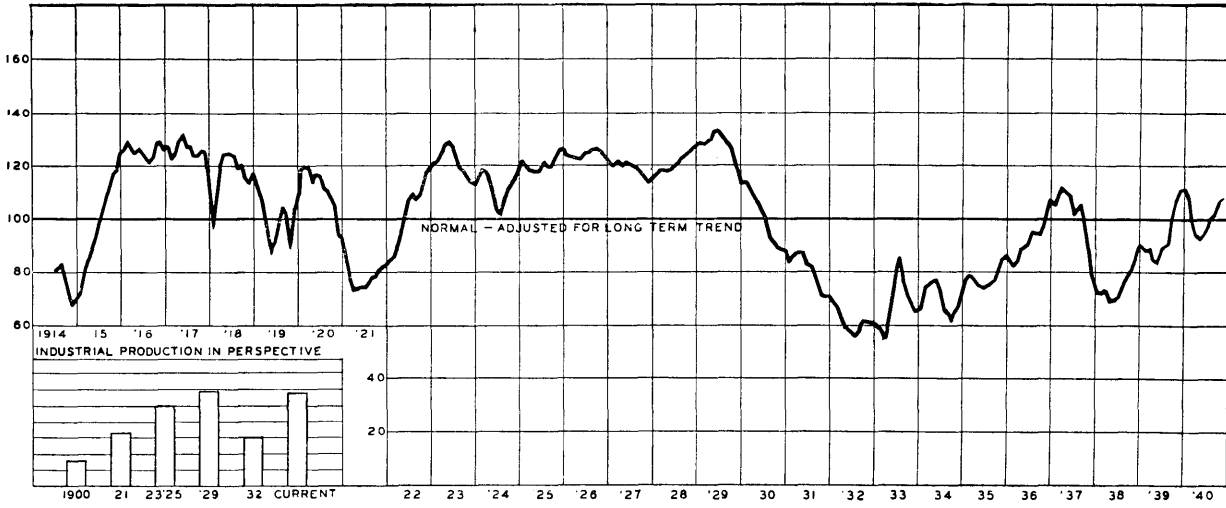
The Harwood Index of Inflation

The preliminary Index of Inflation for October at 105.5 was nearly a point higher than the September Index (revised from 104.6 to 104.8). The Index is shown in ratio form on page 185. The Harwood Index of Inflation is an important instrument for measuring the degree of inflation that exists at any time. The theory on which the Index is based was described briefly on page 168 of the September 30, 1940 bulletin. A more detailed description will be sent on request to subscribers who are interested.

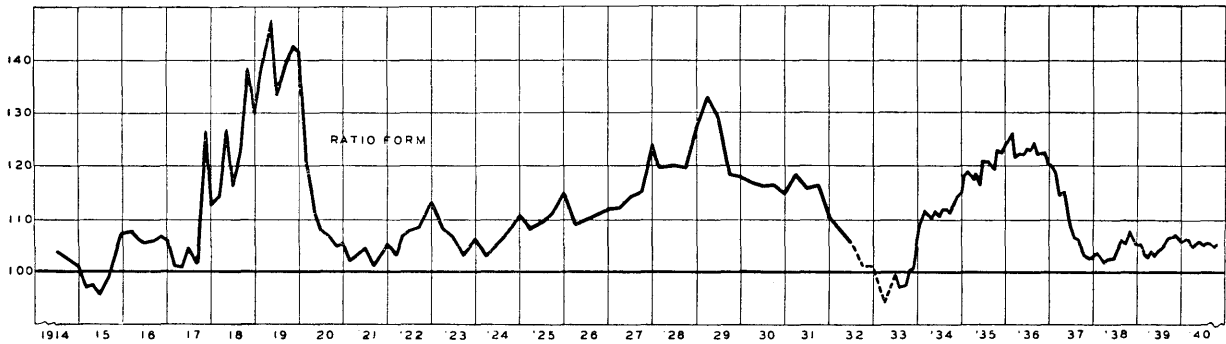
The preliminary Index for October was based on the latest available reports of the commercial banks as of October 16. Up to that time, there was no appreciable change in either the banks' investment-type assets or in their savings-type liabilities. The increase in the Index was caused solely by a reduction of the Treasury's deposits with the Federal Reserve Banks and with the commercial bank depositories from about \$1,550,000,000 to \$1,300,000,000. This indicated the distribution of \$250,000,000 of Government funds to the public.

Mr. Morgenthau recently stated that the Treasury does not contemplate any new borrowing in the immediate future; therefore, the deficit will presumably be met by additional drafts on the Government's working balance. In 1937, Treasury bank deposits were reduced to \$350,000,000.

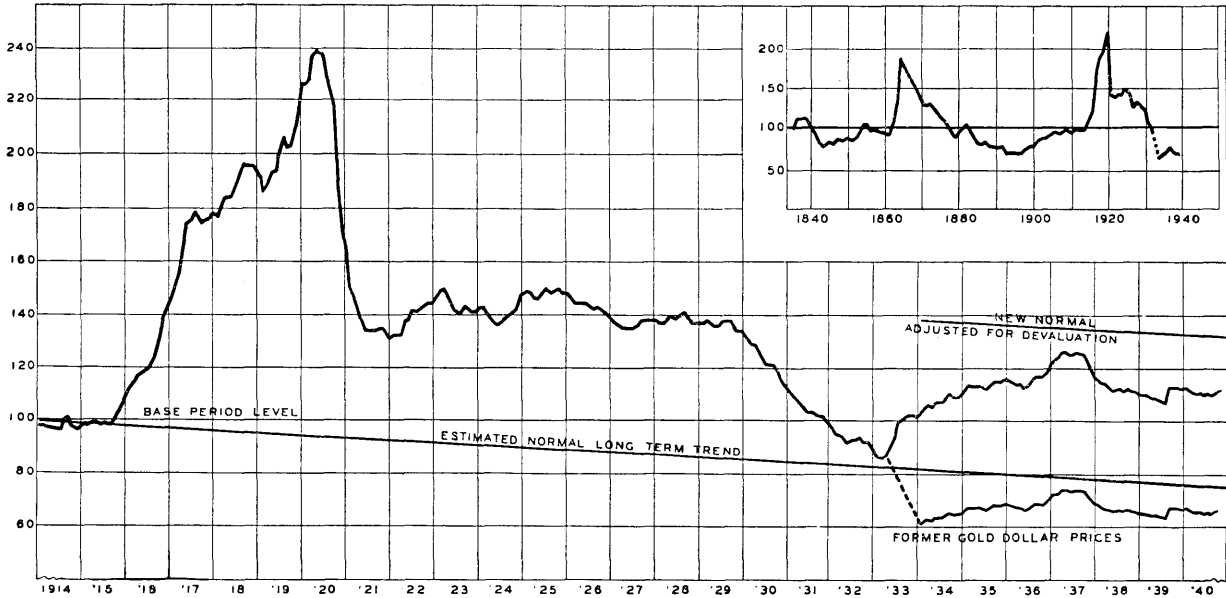
INDUSTRIAL PRODUCTION



HARWOOD INDEX OF INFLATION



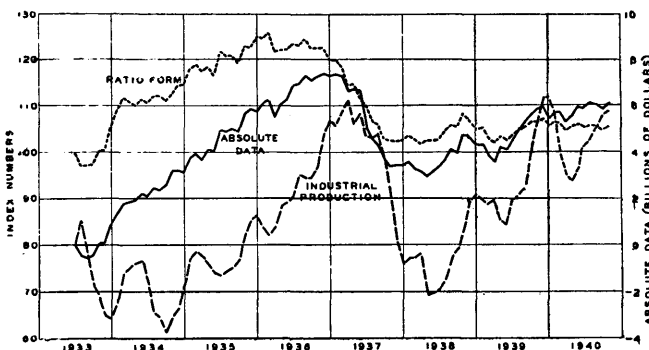
COMMODITY PRICES



In order to facilitate study of the fluctuations that have occurred during recent years, the Index has been reproduced on a larger scale in the chart accompanying this discussion. In addition to the Index in ratio form, the absolute data for the Index of Inflation and the Institute's Industrial Production Index are shown.

The absolute data for the Index of Inflation are the actual amounts of inflationary purchasing media in circulation. In calculating these data, the total of the commercial banks' savings-type liabilities is subtracted from the total of the investment-type assets. Adjustments are made to allow for the hoarding of purchasing media by individuals and by the Government. The ratio form of the Index is intended to show the relative importance of the absolute data. Our method of showing the desired relationship is to subtract the absolute data (all inflationary purchasing media) from the total purchasing media available to the public. The balance remaining is presumably the amount of purchasing media that would be in circulation in the absence of the existing degree of inflation. Total purchasing media available to the public are then divided by the total of purchasing media that would be in use if all inflationary purchasing media were eliminated. The quotient is the ratio form of the Index. The scale at the left of the accompanying chart refers to the Index of Inflation in ratio form and to the Industrial Production Index. The scale at the right of the chart refers only to the absolute-data curve.

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



The chart shows that, although there has been some expansion in bank credit since the low point of the depression in 1938, it has been extremely moderate in comparison with the degree of recovery in manufacturing activity. It is therefore probably safe to conclude that sufficient credit will be available for financing such plant expansion as the national defense program will require this winter.

Other Demand Factors

Demand in retail markets again showed moderate

improvement last week but did not keep pace with the increase in manufacturing activity. Circumstances arising from the war have favored the industrial centers over the rural districts. In the former, pay rolls have been substantially expanded (reaching boom proportions in some centers); on the other hand, the farmers are faced with a rising cost of manufactured goods without an equivalent increase in the prices of farm products. The Department of Agriculture reported that cash farm income was \$901,000,000 in September 1939 and \$894,000,000 in September 1940. As long as this condition exists, demand for consumer goods will apparently be uneven throughout the country.

Commodity Prices

The wholesale commodity price index, which was 110.9 in August, advanced to 111.5 in September, and to 111.9 (preliminary) in October. This index, shown in chart form on page 185, is the United States Bureau of Labor Statistics Index of 817 commodities, adjusted so that the 1913 monthly average equals 100. The index is also shown on the former gold dollar basis since January 1934 when the devaluation of the dollar was proclaimed.

The accompanying table shows changes that have occurred in the major classifications of the wholesale commodity price index. The October 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)

	Oct. 1929	Oct. 1932	Oct. 1939	Sept. 1940	*Oct. 1940
Farm Products	145.0	65.6	93.8	93.0	92.4
Foods	157.9	94.2	114.2	110.9	110.6
Hides and Leather	162.0	106.9	153.6	144.9	147.3
Textile Products	156.2	96.0	131.8	125.7	126.7
Fuel and Light	135.6	116.0	120.6	117.1	117.9
Metals and Products	109.9	88.4	105.5	105.0	106.2
Building Materials	169.1	124.7	163.7	166.5	167.7
Chemicals	†	†	92.5	95.8	95.8
House Furnishings	168.2	130.9	156.0	159.9	159.9
Miscellaneous	119.2	91.8	111.2	109.3	109.5
Raw Materials	141.1	79.4	105.1	102.3	102.9
Semimanufactures	126.4	81.0	110.9	103.5	105.2
Finished Goods	135.7	100.3	117.7	116.9	117.0
All Commodities	136.2	92.3	113.8	111.5	111.9

* Preliminary Estimate
† In process of revision

Last week the sensitive wholesale commodity price indexes advanced only moderately. Moody's Spot Commodity Price Index was 164.6 on October 17 and 165.0 on October 24. The Dow-Jones Index of Commodity Futures closed at 55.36 on October 17 and at 55.68 on October 24.

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Statistical Summary; Production, Purchasing Power, and Prices

	1939					1940							
	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.*
Index of Industrial Production . . .	107.1	111.8	112.1	109.0	100.9	95.5	93.4	96.1	100.5	102.0	105.0	108.0	109.0
Index of Inflation (ratio form) . . .	106.7	107.3	105.5	106.5	106.2	104.4	105.4	106.0	105.2	105.8	105.6	104.8	105.5
Commodity Price Index	113.8	113.6	113.5	113.8	112.8	112.3	111.9	112.3	111.0	111.2	110.9	111.5	111.9
Commodity Price Index	67.3	67.2	67.2	67.3	66.7	66.4	66.2	66.5	65.7	65.8	65.6	66.0	66.2

(In terms of former gold dollar)

*Preliminary Estimate.