

AMERICAN INSTITUTE for ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

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

January 20

1941

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Again, Why Rage?

The President's attack against Senator Wheeler at last week's press conference was too significant to be ignored by those engaged in analyzing developments that have an important bearing on the economic future of this country. Mr. Roosevelt's outburst recalls a similar incident that occurred in 1937 when the President was asked to reveal his attitude toward a third term. The following is abstracted from the analysis of the President's behavior published in the July 19, 1937 weekly bulletin under the title "Why Rage?"

"The facts to be considered include Mr. Roosevelt's behavior when questioned at a recent press conference regarding his attitude toward a third term. A Washington correspondent has reported his observations as follows:

Never has Franklin D. Roosevelt shown such flashes of anger as he did when newspapermen tried to pin him down on his attitude toward a third term. The question he resented most had been carefully and deliberately framed. It was 'Mr. President, will you say now whether you will refuse a nomination for a third term?'

The President sat back as if stunned. A deep crimson colored his face, and a hard tone crept into his voice. 'Oh, my God,' . . . he began in an angry outburst.

"This brief description of Mr. Roosevelt's behavior is sufficient to focus attention on an important question: Why did Mr. Roosevelt lose his temper; why that reaction to a simple question? This question can be best answered by considering the various possibilities involved.

"If Mr. Roosevelt had already decided *not* to accept the nomination for a third term, and if he did *not* wish to have Congress fear that he would be the next President (to whom those seeking reelection would have to turn for patronage and support), it would have been a simple matter to state his choice. Under such circumstances, it is difficult to imagine any reason for concealing his real attitude; and certainly there would have been no reason for rage.

"If Mr. Roosevelt had already decided *not* to accept the nomination for a third term, but *did* wish to have Congress regard him as a possibility, it would have been a simple matter to parry the question. The rage reaction likewise does not agree with this assumption.

"If Mr. Roosevelt was *undecided* as to whether or not he would accept the nomination for a third term, and there was *no desire* on his part to have Congress

consider him a candidate, he could have answered the question frankly, or might simply have refused to cross a bridge until he came to it. The rage reaction is out of place here also.

"If Mr. Roosevelt was *undecided* with regard to the acceptance of a third term nomination, but had definitely made up his mind *to encourage* a Congressional belief in his candidacy (of course, with a view to influencing the Congressional attitude toward the legislation he desires), a laughing 'Why should I?' or a simple and frank assertion that he had not yet decided would have served the purpose. Rage seems strange under this assumption, likewise.

"If Mr. Roosevelt had decided to seek a third term, but did *not* wish to influence members of Congress through their expectations in that respect, it is probable that Mr. Roosevelt would not yet desire to announce his intentions. In that event, he probably would have parried the question with a joke; and again the rage response does not fit in the picture.

"Finally, if Mr. Roosevelt had made up his mind to seek a third term, and likewise wished to have Congress realize what that might mean to individual members who opposed Mr. Roosevelt's wishes, a peculiarly different situation would have existed.

"In the first place, knowing the general opposition to a third term, Mr. Roosevelt would probably prefer to conceal his intentions, for the time being. On the other hand, in order to influence certain members of Congress as much as possible, it would be essential to impress them with the probability of his reelection. Thus the stage was set for an inner conflict between the desire for concealment and the desire to make his intentions plain. How conceal his intentions from the public, but reveal them to Congress?

"Modern psychology is beginning to progress rapidly. The application of scientific methods in this field has been delayed, and it cannot yet be said that much progress has been made. However, it is fairly well established that a strong inner conflict leads to non-adjustive behavior, and the typical non-adjustive behavior to be expected under these circumstances is rage.

"For what they may be worth, we therefore offer the following definite conclusions:

1. Mr. Roosevelt earnestly desires and is planning to be his own successor in office.

2. Mr. Roosevelt dares not frankly state his intentions to the public, but he earnestly hopes to influence Congress by encouraging the belief that he will be a third term candidate."

It is unnecessary to emphasize the fact that subsequent developments have demonstrated the usefulness of the foregoing analysis. The President's latest outburst was reported by the *New York Times* (January 13, 1941, page 1) as follows: "At his press conference today the President wrathfully turned from a reply to one form of the criticism of the powers carried by the lend-lease bill to snap: 'That is not an answer at all to those who talk about plowing under every fourth American boy, which I regard as the most untruthful, as the most dastardly, unpatriotic thing that has ever been said.' His voice rose as he spoke and he burst forth: 'Quote me on that. That really is the rottenest thing that has been said in public in my generation.'" (These remarks of course referred to Senator Wheeler's radio speech against the bill for "all-out" aid to Britain, in which he said that the bill represented another "New Deal triple A foreign policy — plow under every fourth American boy.")

A similar line of reasoning to that followed in the analysis of the President's exhibition of rage in 1937 reveals the following possibilities:

If Mr. Roosevelt had firmly decided to limit aid to Britain to measures short of war, a definite statement to that effect during the press conference would have been the best answer to Senator Wheeler's accusation. Rage would have been both unnecessary and inexplicable in that circumstance.

If Mr. Roosevelt had already decided to limit participation to measures short of war but wished to have the totalitarian nations regard our active participation as a possibility, there would also have been no reason for rage, and it would have been wiser to ignore Senator Wheeler's speech.

If the President had determined on a policy that might ultimately justify Senator Wheeler's statement, Mr. Roosevelt was faced with a strong inner conflict. A categorical denial that American troops would be sent abroad might later be used to thwart his intentions; on the other hand, any admission of the possibility or attempt to justify the use of our troops in Europe would obviously not meet with public favor at this time. Presumably, it was the resulting inner conflict that led to the typical non-adjustive behavior, rage.

Our conclusions are therefore as follows:

1. That the President is determined on "all-out" aid to Britain, *regardless* of the consequences, which will presumably include our participation in the war.

2. That, at the present stage of the international game, he prefers to conceal from the public his determination to follow this course.

Parentetically, it should be noted that these conclusions do not imply deliberate deception of the public by Mr. Roosevelt. Most people have developed the faculty of wishful thinking, of at least partially deceiving themselves regarding the course they intend to follow. The individuals most adept at this are able to escape from the real world and hide even from their own intentions. A specific example of what is believed to be Mr. Roosevelt's ability along these lines is found in his present attitude toward the budget and the limitations imposed on most individuals by the inelasticity of dollars and arithmetic. Apparently, his escape mechanism from these realities of life is to forget what dollars mean in terms of the "sweat of every man who

labors" and to urge that the "silly, old fool dollar sign" be pushed aside and forgotten.

Great Britain's Ability to Pay

We do not recall whether it was the statistical legerdemain of some government that inspired the aphorism, "Figures can't lie, but liars can figure." In any event, this seems a sufficiently appropriate comment on the efforts of the British and American Governments to convince the American public that Britain no longer has the wherewithal. Fortunately, the *Federal Reserve Bulletin* for December 1939 published certain facts before it was known that another agency of the Government might wish to stage a juggling act with the data involved.

The Ethiopian in the statistical woodpile can be described briefly as follows:

1. In December 1939, the British Empire held gold and dollar assets valued at approximately \$7,115,000,000.¹ (This does not include many millions of acres of land in the United States owned by English landlords.)

2. Since then, the Empire has produced \$1,100,000,000 worth of gold and has sold to the people of the United States goods valued at \$1,400,000,000.² The sum of these two figures seems to be \$2,500,000,000.

3. The latest *Federal Reserve Bulletin* also says, "Drafts upon these gold and dollar resources have been made to pay for \$2,600,000,000 worth of goods already delivered by the United States. . . ."

4. If our subtraction is correct, the Empire has therefore had to spend about \$100,000,000 of its original dollar resources. (No doubt, more has been converted into dollars.)

5. If the Empire continues to produce new gold and sell goods to us at the same rate in 1941, but purchases about \$3,000,000,000 worth of our goods, as Secretary Morgenthau suggests, the Empire will have to use about \$500,000,000 of the \$7,000,000,000 worth of dollar assets in 1941.

6. The gold reserves of England alone are sufficient to continue at this rate for five years.

7. What possible excuse is there for loading the financial burden on Sancho Panza Americanus?

8. Would not both England and the United States do well to remember the Honorable Winston Churchill's assertion, "Nothing can save England if she will not save herself."³

BUSINESS

The Trend of Commercial Failures

Although there was a decrease in the number of commercial insolvencies during November, when compared either with those in the preceding month or those in November 1939, there was an increase in the liabilities involved to the largest sum recorded in any month this year. However, even after that month's increase, total liabilities for the first eleven months of 1940 were 9.4 per cent less than the total incurred during the first eleven months of 1939.

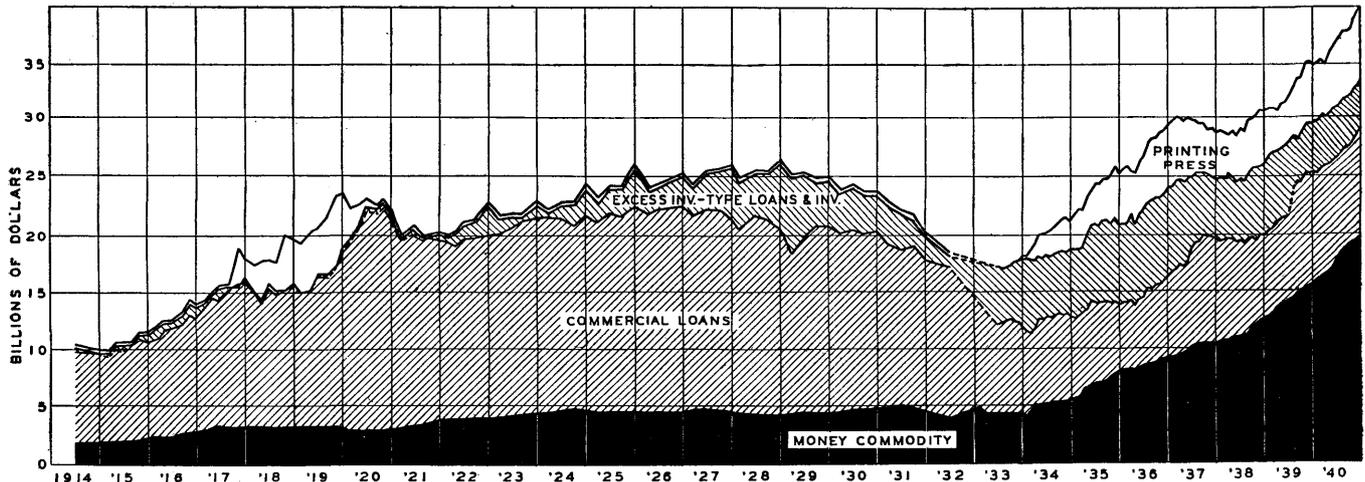
The number and liabilities of commercial failures during each month of 1939 and during the first eleven months of 1940 are shown in the accompanying table.

¹ *Federal Reserve Bulletin*, December 1939.

² *Federal Reserve Bulletin*, January 1941, page 8.

³ Speech on April 24, 1933, page 310 "Winston Churchill" by René Kraus.

SOURCES OF PURCHASING MEDIA



COMMERCIAL FAILURES, NUMBER AND LIABILITY

| | Number of Failures | | Liabilities of Failures (In millions of dollars) | |
|--------------|--------------------|--------------|---|--------------|
| | 1939 | 1940 | 1939 | 1940 |
| January | 1,567 | 1,237 | 20,790 | 15,279 |
| February | 1,202 | 1,042 | 13,582 | 13,472 |
| March | 1,322 | 1,197 | 19,002 | 11,681 |
| April | 1,331 | 1,291 | 18,579 | 16,247 |
| May | 1,334 | 1,238 | 15,897 | 13,068 |
| June | 1,119 | 1,114 | 12,581 | 13,734 |
| July | 1,153 | 1,175 | 14,999 | 16,213 |
| August | 1,126 | 1,128 | 12,637 | 12,997 |
| September | 1,043 | 976 | 10,545 | 11,397 |
| October | 1,234 | 1,111 | 17,464 | 12,715 |
| November | 1,184 | 1,024 | 13,201 | 16,572 |
| December | 1,153 | | 13,243 | |
| Total | 14,768 | | 182,520 | |

FINANCE

Sources of Purchasing Media

During December 1940, purchasing media from all sources increased approximately \$500,000,000. This was about the same as the increase that was recorded in the preceding month. Total purchasing media available to the public increased more than \$5,000,000,000 during 1940, an increase of about 14 per cent. Most of the new purchasing media were derived from additions

to the Nation's monetary gold stock; only about 10 per cent of the increase represented additions to inflationary purchasing media.

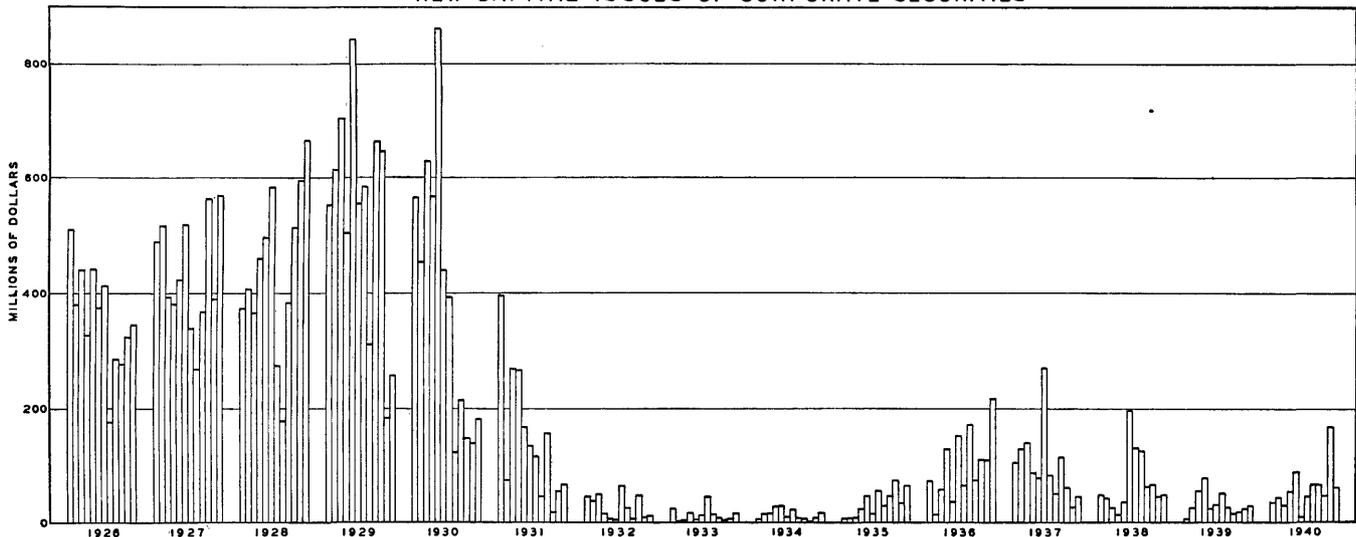
Purchasing media from the money commodity increased approximately \$200,000,000 during December. Imports of the metal from the British Empire were the most important source of the increase in the gold stock. The British Empire is now producing gold at a rate of approximately \$100,000,000 per month, and this will probably be sent to the United States so that Britain can obtain dollar exchange even if her monetary gold reserves are depleted.

Purchasing media derived from commercial loans were not appreciably changed during December. Although commercial loans increased during 1940, the purchasing media thereby created were an unimportant part of the total from all sources.

There was an increase last month of \$300,000,000 in purchasing media from the third source (credit resulting from the banks' acquiring investment-type assets that represent tangible property in excess of the savings available to the banking system), primarily as a result of additions to the banks' holdings of Government-guaranteed securities.

Purchasing media from the printing-press source

NEW CAPITAL ISSUES OF CORPORATE SECURITIES



remained about unchanged last week. The December installment of the income tax and other tax receipts plus savings invested in new Government securities enabled the Treasury to meet expenditures during the month without resorting to inflationary devices. Nevertheless, the increase in the banks' holdings of Government-guaranteed securities represented inflationary additions to purchasing media because these investments were not counterbalanced by an increase in the banks' savings-type liabilities.

New Capital Issues

The chart at the bottom of page 11 shows the volume of new corporate financing in the United States by months for the years 1926-1940 and facilitates comparison between the flow of new capital into industry during recent months with that during the corresponding periods shown. The data for investment-trust issues are excluded to avoid duplication.

The volume of new capital issues during 1940 was substantially greater than the 1939 total, but failed to equal that for any of the three years preceding 1939. The record for November, the only month in which there was a substantial volume of new capital issues, was made possible by a single transaction, that for the American Telephone and Telegraph Company.

The chart reveals no tendency for corporate financing to revive to the levels typical of the 1926-1931 period. Although improvement occurred during 1936 and 1937, it was a short-lived development. Taxes on higher incomes, more stringent Government regulations, and reckless Government fiscal policies have discouraged long-term commitments; consequently, the flow of savings has been diverted from the field of private capital investment to partly financing the increasing public debt.

New corporate financing in December and for each year during the past fifteen years is shown in the following summary:

NEW CORPORATE FINANCING IN THE UNITED STATES

| Year | Twelve Months | |
|------|---------------|--------------------------|
| | December | (In millions of dollars) |
| 1926 | 343 | 4,286 |
| 1927 | 563 | 5,217 |
| 1928 | 663 | 5,294 |
| 1929 | 253 | 6,407 |
| 1930 | 181 | 4,307 |
| 1931 | 67 | 1,759 |
| 1932 | 10 | 324 |
| 1933 | 16 | 161 |
| 1934 | 16 | 159 |
| 1935 | 65 | 402 |
| 1936 | 217 | 1,202 |
| 1937 | 47 | 1,225 |
| 1938 | 60 | 868 |
| 1939 | 27 | 369 |
| 1940 | 61 | 720 |

Source: *Commercial and Financial Chronicle*.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced another half a point to 98 per cent of theoretical capacity last week. Although priorities for national defense orders for steel specifications have not yet been made mandatory, a committee has been organized that may later

issue priority orders. The *Iron Age* expressed the attitude of the industry toward mandatory priorities as follows: "While the steel industry has been opposed to priorities on the theory that there will be enough steel to go around if buying is done in an orderly manner, it would undoubtedly welcome priorities as an alternative to excessive building of new plant capacity, which, even if authorized now could not possibly be completed in time to be of help in the tight situation that is likely to exist during the first half of this year."

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|------|------|------|------|------|------|
| Per Cent of Capacity | 82.5 | 24.5 | 80.0 | 30.0 | 85.0 | 98.0 |

(Latest 1941 weekly data; corresponding week earlier years)

Electric-power production increased from 2,704,-800,000 to 2,834,512,000 kilowatt hours last week. The gain was about in line with seasonal expectation, and the increase in power generated last week from that produced in the corresponding week of 1940 remained approximately the same as has been reported recently.

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|------------------------|------|------|------|------|------|------|
| Billion Kilowatt Hours | 1.74 | 1.60 | 2.26 | 2.12 | 2.70 | 2.83 |

Last week's production of 115,935 cars and trucks exceeded output for any other January week during the industry's history. The previous January high record was made a year ago, when 111,330 units were produced.

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|---------------------|------|------|------|------|------|------|
| Units (000 omitted) | 99 | 31 | 99 | 54 | 111 | 116 |

The adjusted index of cotton-mill activity declined slightly last week from 160.7 (revised) to 159.9. Cotton-mill activity actually increased, but to a smaller extent than was seasonally expected.

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|------|------|-------|------|-------|-------|
| New York Times Index | * | 92.1 | 145.8 | 90.6 | 125.5 | 159.9 |

* Not available until third week in March.

Lumber production increased contraseasonally last week and the adjusted index advanced from 142.1 to 143.2.

| | 1929 | 1932 | 1937 | 1938 | 1940 | 1941 |
|----------------------|-------|------|------|------|-------|-------|
| New York Times Index | 144.3 | 38.8 | 68.2 | 48.9 | 120.5 | 143.2 |

Demand

The volume of retail trade was somewhat greater last week than it was in the preceding week, but there was no indication that consumers are becoming concerned about scarcities that may develop as a result of defense efforts. Most merchants are wisely refraining from "scare" advertising to induce the public to stock up in anticipation of higher prices. Such a campaign would be frowned on by the Administration and might also cause a temporary boom in consumer buying that would be followed by a substantial reaction.

Prices

The sensitive wholesale commodity price indexes fluctuated within a narrow range last week. Moody's Spot Commodity Price Index was 174.4 on January 9 and 174.3 on January 16. The Dow-Jones Index of Commodity Futures closed at 57.56 on January 9 and at 57.08 on January 16.

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