AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

WEEKLY BULLETIN

February 10 1941

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Are the Prophets of Doom Right?

During the past several weeks one of the gloomiest of the prophets of doom in the field of economics has apparently become even more pessimistic than usual. His writings, which appear in the bulletin of the International Economic Research Bureau, have been the occasion for several inquiries from our subscribers. Therefore, we are devoting the paragraphs that follow to a brief analysis of the pessimistic article in the Bureau's bulletin dated January 28, 1941. Incidentally, it is similar in many respects to earlier articles in that bulletin.

It is first necessary to emphasize that we agree with much of the article under discussion. For example, it seems to be true that the so-called "natural laws" are never modified for man's convenience. It is equally true that reformers, whether economists or otherwise, are usually blind to some of the realities of life. No one can deny that there was a substantial degree of inflation during the 1920's, but the comparison of the boom-decade's big building projects with the cathedrals constructed in Europe during the past 2,000 years seems somewhat far-fetched as evidence of inflation. It should not be forgotten that some of those cathedrals were under construction for many decades, although each of the greatest inflationary periods lasted only a few years.

Some of the assertions made in the article are believed to be erroneous. In particular, it is alleged that no country in the world except Germany had as much artificial paper credit in circulation as the United States did by 1929. Presumably, the author was allowing for relative populations and normal business needs; if not, such a comparison becomes meaningless. On that basis, both France and Italy, and perhaps other countries, were well ahead of the United States. There is also a statement that our steel industry is now supplying the needs of the South American countries and various others, but a recent discussion in the *Iron Age* asserted that "Many export orders from neutral countries are going begging. . . ." As readers of our publications know, we discussed sometime ago the long-term adverse influence of the corrupt political machines in the nation's metropolitan centers. However, the assertion in the Bureau's bulletin that 99 per cent of the city population's opinions are determined for them by such influences as the radio programs, newspapers, etc., lacks a scientific basis, at least. We doubt that such a high percentage indoctrination of opinion will be found even in Germany.

In one important respect there appears to be a confusion of disease and symptom. The article asserts that "the only real type of inflation that could take place in this country . . . was an enormous inflation of farm, industrial, and commercial capacity." If the author intended to imply that increased productive capacity is inflation, he has either confused one of inflation's frequent, but not invariable, results with inflation itself; or he defines inflation in a manner that makes much of the rest of the article meaningless.

The alleged efficiency of the totalitarian states is emphasized. It is argued that Germany and Japan have been endowed with peculiar abilities that will insure their success in what is called "this mass production age." The author seems to feel that nature's plan is already evident, and that the new slave economies will be economically successful. With that viewpoint we completely disagree. We are convinced that the efficiency characteristic of American mass production methods cannot be long maintained in a slave economy. The modern industrial economy is too complex, we believe, to be operated successfully for long from the top down. Slavery in such a society is an anachronism.

Our viewpoint may be summarized as follows:

1. We do not believe that what may be called the civilization cycle can be predicted within useful limits.
2. We doubt the value of an analysis based in part on obviously extravagant and in some instances erroneous assertions.
3. We agree with much of the article but disagree with what appear to be the principal conclusions.
4. Finally, we are reasonably certain that the degree of inflation will increase for several months at least, although we admittedly cannot predict what all the results of this inflation will be.

Our Flexible Constitution

Although the two decisions rendered by the Supreme Court last Monday will probably hold important places in our constitutional history, they represent incidents in a trend rather than radical departures from recent Court interpretations. In one case the majority opinion held that, under the terms of the present law, the provisions of the Sherman Anti-Trust Act are not applicable to the actions of labor unions. There is no implication that Congress cannot enact legislation applying such prohibitions to labor unions as are applied to employers under the Sherman Act.

The opinion upholding the Wage-Hour Law has a more fundamental significance. For several years, the

Federal Government has asserted the right to regulate both the actual flow of interstate commerce and the conditions under which products that are shipped in interstate commerce are manufactured. Inasmuch as a considerable part of the Nation's economic functions involve interstate shipments of one kind or another, the question is vital to the controversy between advocates of states' rights and the supporters of more power for the central Government.

Last Monday's decision completely reverses the opinion in the famous case of *Adair* vs. *United States* (rendered in 1908), when it was declared that Congress did not possess the power under the (interstate) commerce clause to make it a criminal offense for a common carrier to discharge an employee because he belongs to a labor union. Since the case just mentioned, the general tendency of Supreme Court decisions has been to interpret the commerce clause as giving Congress greater powers. The recent case apparently confirms the power of Congress to regulate any social or economic process even remotely related to interchanges among the separate states.

Labor Disputes To Be Controlled?

It was inevitable that disagreements leading to strikes would arise between labor and management in establishments working on national defense. It was perhaps just as inevitable that proposals should be made in Congress for laws that would make it unlawful for employees to interrupt the production of defense materials by striking. The leaders of organized labor have failed to perceive in the Wage-Hour Act the latent control over all labor activities that was inherent in that legislation. They abandoned the Gompers theory that labor should distrust Government legislation even when it appeared to be in its own interests. Nevertheless, labor leaders of today will no doubt oppose any effort of the Government to restrict the strike privilege. It is probable that the influence of labor organizations by themselves would be sufficiently great to prevent the enactment of any such controls, but this is not certain in a period of tense international crisis.

Representatives of industrial management have wisely decided to join with labor in opposing controls of the sort now being considered. The Committee on Manufacture of the Chamber of Commerce of the United States has recommended as follows: "With full recognition of the importance of preventing interruptions in the defense program, we nevertheless have grave doubts as to the wisdom of urging federal legislation for this purpose, to apply to all industries participating in this program. Of necessity, such legislation, although ostensibly designed to provide a basis for maintaining peace in industry, will have as its main objective the development of a national labor policy for the emergency period. Accordingly, it not only will deal with unusual and emergency conditions, but it must also be prepared and advanced under circumstances that preclude the full use of the deliberative process so essential to sound legislative procedure.

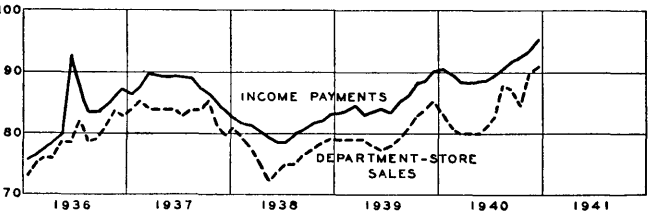
"Nor are we convinced that there is present need for additional federal legislation in the field of industrial relations. In particular, we refer to legislation of the 'anti-strike' variety. Despite the occurrence of isolated instances of labor disagreements, which appear to have received undue prominence in the press, there is every evidence of an increasing determination on the part of oth management and workers to develop voluntary methods for the adjustment of labor difficulties and thus to prevent production stoppage. According to recent estimate, such voluntary methods will probably prove effective in 99 per cent of the defense industries."

BUSINESS

Income Payments and Department-Store Sales

The United States Bureau of Foreign and Domestic Commerce has compiled a monthly index of total income payments in the United States. This index represents changes in the combined dollar total of salaries and wages (including farm income), entrepreneurial incomes, rents and royalties, dividends and interest, and Government relief and benefit payments. The index affords one of the best measures of fluctuations in potential demand that is available.

INCOME PAYMENTS AND DEPARTMENT-STORE SALES



The index is shown in the accompanying chart for the five-year period, 1936–1940. The figure for December 1940 (the latest month available) was 95.2 per cent of the 1929 monthly average. This compares with a low of 53.0 in April 1933 and was at the highest level attained since February 1930. Although the index is adjusted for seasonal variations, it is not adjusted for population growth. The average monthly index advanced from 71.7 in 1935 to 82.7 in 1936. The distribution of adjusted service certificates in June 1936 was an important factor in the advance and accounted for the sharp peak in the chart during the summer of 1936. About $800,000,000 worth of certificates was cashed in June and about $400,000,000 in July by World War veterans. The prosperity of 1936 lasted through more than half of 1937, but the 1938 depression caused a reduction in the average monthly index from 87.5 in 1937 to 80.7 in 1938. The average was 85.4 in 1939 and 90.6 in 1940.

The dotted line on the same chart shows the Federal Reserve index of department-store sales adjusted to the base that was used for the income payments (1929 monthly average = 100). As might be expected, the general trend of the two indexes has been closely parallel, although the month-to-month fluctuations have varied. Changes in income payments might be expected to precede changes in department-store sales, and this has usually although not always been the case.

Payment of the soldiers' bonus in June 1936 preceded the upturn in the department-store sales index by one month, and the downturn in the index of income payments preceded the substantial decline in the department-store sales index by three months. On the other hand, the upturn in department-store sales preceded the upturn in income payments in 1938, and the

subsequent intermediate movements of the two indexes are not so closely correlated that month-to-month changes in income payments can be relied on to forecast variations in department-store sales.

Exports in December

The total volume of exports in December 1940 was $332,300,000, compared with $327,700,000 in November and $367,800,000 in December 1939. The following brief summary indicates the relative importance of the principal markets now available for United States exports.

UNITED STATES EXPORTS

Destinations	*December 1940* *Value in Millions of Dollars*	*Per Cent of Total*
Canada	62.4	19.4
Mexico, South and Central America	57.4	17.8
West Indies	10.8	3.4
United Kingdom	101.3	31.4
South Africa	11.0	3.4
Russia	6.9	2.1
Far East*	57.3	17.8
Other Destinations	15.2	4.7
Total	322.3	100.0

* Includes Australia and New Zealand, British India, British Malaya, Hong Kong, China, Japan, The Netherlands Indies and the Philippine Islands.

Telephones in Use

At the end of January, there were approximately 19,830,000 telephones in the United States. This number substantially exceeds the predepression record made in 1930, when there were 17,200,000 instruments in use, and, in spite of the population growth during the past eleven years, the number of telephones in service per capita is at a new high.

During January there was an increase of more than 140,000 telephones in service, compared with an increase of 94,400 in January 1940. The telephone business is affected primarily by changes in commercial activity, and the recent more rapid rate of growth suggests that there has been improvement in the prospects for private enterprise.

The Institute's index of telephone stations in service (on the basis 1926=100) is adjusted for population growth. It advanced from 128.2 in December to 128.9 in January. The index in each month for the past four years and in January 1941 is shown in the accompanying table.

INDEX OF NUMBER OF TELEPHONE STATIONS IN SERVICE PER CAPITA
(*Per Capita Monthly Average 1926=100*)

	1937	*1938*	*1939*	*1940*	*1941*
January	108.0	113.6	116.9	122.2	128.9
February	108.3	113.7	117.2	122.7	
March	109.1	114.2	117.8	123.4	
April	110.0	114.6	118.1	124.0	
May	110.4	114.8	118.7	124.5	
June	110.8	114.6	118.8	124.7	
July	111.0	114.6	118.9	124.8	
August	111.3	114.8	119.2	125.0	
September	112.0	115.4	119.9	125.8	
October	112.8	115.9	120.7	126.7	
November	113.0	116.2	121.2	127.4	
December	113.2	116.4	121.8	128.2	

Commercial Confidence

Newspaper advertising lineage increased substantially in December 1940 from the November total, and a more favorable comparison was made with lineage in the corresponding month of the preceding year than was the rule in preceding months. The aggregate lineage increased 4 per cent. The largest gains were reported in the display-automotive advertising and in classified advertising. The retail stores were able to increase their volume of business 7 per cent from the total in December 1939 to that in December 1940 by an increase of only 3.7 per cent in advertising efforts.

Newspaper advertising lineage in the dailies of 52 cities during December 1939 and 1940, with the percentage increase of the latter compared with the earlier period, is shown herewith.

Newspaper Advertising Lineage	*December 1939* (*Millions of Dollars*)	*December 1940*	*Per Cent Increase December 1940 From December 1939*
Classified	20.2	21.9	8.4
Display			
Automotive	3.5	4.1	17.1
Financial	1.6	1.7	6.3
General	14.2	13.6	*4.2**
Retail	78.6	81.5	3.7
Total	118.1	122.8	4.0

* Decrease

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week declined from 97 to 96 per cent of theoretical capacity. The slight decrease in operations was attributed to the necessity of closing down some furnaces for repairs. The following statement by the *Iron Age* makes it clear that the industry will operate at practical capacity during the next few months: "It is not defense projects that are giving the steel mills greatest concern, but the rush of miscellaneous buying, which has filled up mill schedules for three to four months, with some deliveries extending to the end of the third quarter. Considerable juggling of mill schedules becomes necessary whenever defense or semi-defense projects not hitherto provided for are sandwiched in."

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Per Cent of Capacity	86.0	26.5	80.0	31.0	71.5	96.0

(Latest 1941 weekly data; corresponding week earlier years)

Production of electric power last week was substantially the same as output in the preceding week, although a seasonal decrease was expected. The gain in comparison with output in the corresponding week of 1940 improved from 10.3 to 11.3 per cent.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Billion Killowatt Hours	1.73	1.59	2.20	2.08	2.54	2.83

Automobile production increased contraseasonally last week. The industry produced 124,400 units, compared with output of 121,948 in the preceding week and 101,240 in the corresponding week last year.

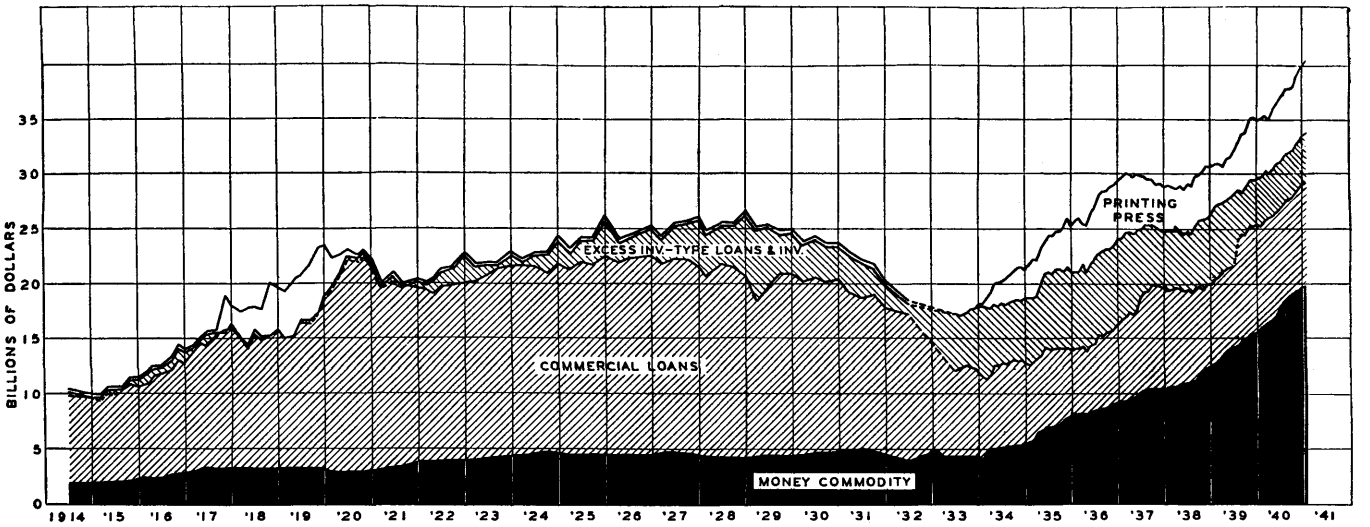
	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Units (000 omitted)	120	27	74	59	101	124

Cotton-mill activity decreased moderately last week, but only to the extent of seasonal expectations, and the adjusted index remained unchanged from the preceding week at 167.9.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	*	90.1	139.4	86.7	118.6	167.9

* Not available until third week in March.

SOURCES OF PURCHASING MEDIA



Lumber production decreased more than seasonally last week and the adjusted index declined from 143.7 to 137.3.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	137.1	37.1	59.1	56.9	109.5	137.3

Demand

The volume of retail trade was well maintained last week; consequently, the comparison with the volume a year ago, when trade was decreasing, was more favorable. The Fairchild Retail Price Index is less than two per cent higher than it was a year ago, but the dollar volume of department-store sales is about ten per cent greater. Therefore, the physical volume of consumers' goods being distributed has increased substantially during the past year.

Prices

The sensitive wholesale commodity price indexes declined early last week but recovered a portion of the losses in later sessions. Strength in the wheat market, for the first time in several weeks, appeared to encourage activity in other commodity markets. Moody's Spot Commodity Price Index was 173.6 on January 30 and 172.5 on February 6. The Dow-Jones Index of Commodity Futures closed at 55.72 on January 30 and at 55.90 on February 6.

There was a fractional increase in the cost of living during the final month of 1940, which was primarily the result of higher food prices. The composite index prepared by the National Industrial Conference Board and data for December 1929, 1932, 1939, and November and December 1940 are shown in the accompanying table.

	Dec. 1929	*Dec. 1932*	*Dec. 1939*	*Nov. 1940*	*Dec. 1940*
All Items Combined	100.3	74.9	84.6	85.5	85.8
Food	108.0	66.1	76.4	77.2	78.2
Housing	91.7	67.5	86.6	87.5	87.5
Clothing	99.3	63.5	72.9	73.1	73.0
Fuel and Light	94.4	86.3	85.6	86.3	86.5
Sundries	98.9	92.2	96.8	98.1	98.1

FINANCE

Sources of Purchasing Media

The total of purchasing media from all sources increased during January and, at the end of the month, was approximately $41,000,000,000. As the accompanying chart shows, the increase during the past year was the greatest reported in any twelve-month period.

There was an increase of about $110,000,000 in purchasing media from the money-commodity source during January. This was the smallest gain from this source since October 1939. The smaller increase of course reflects the decline in imports of gold.

There was an increase in purchasing media derived from commercial loans last month. The increase was somewhat larger than it has been during recent months and suggests that bank credit is being used to a greater extent to finance the production of durable goods and perhaps speculative inventories, inasmuch as demand for other types of commercial loans is relatively constant.

The increase in purchasing media from the third source (an excess of investment-type assets that represent tangible property with respect to savings available to the banking system) was relatively small and was caused by moderate increases in the amount of Government-guaranteed and "other" securities held by the commercial banks.

Purchasing media from the fourth source contributed most substantially to the increase in the total of purchasing media. The commercial banks increased their holdings of Government obligations. The Government also distributed to the public funds previously acquired by the sale of Federal obligations. After accumulating bank balances as a result of the December financing operations, the Treasury began to reduce its checking accounts in January. (Government deposits with the banks are deducted from the total of purchasing media derived from the printing press, because such deposits represent funds not yet available to business.)

SECURITIES

Bonds

The bond market became stronger last week after the substantial decline from January 27 to February 4. The Dow-Jones Average of Forty Bonds was 91.36 on January 30 and 91.31 on February 6.

Stocks

The stock market developed greater resistance to selling pressure last week. The railroad issues have suffered less severely than have industrial stocks during the market decline that began in November. The Dow-Jones Industrial Average declined about 12 per cent, compared with a decline of approximately eight per cent in the Railroad Average.