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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

America's Role

Statements by President Roosevelt and other Government officials leave little doubt that we shall put our economic resources at Great Britain's service after passage of the lend-lease bill. It is therefore of interest to survey the character of the task ahead. Although it is not possible to obtain an outline of the British Government's requirements, some light is thrown on the subject by a recent discussion in *The Economist* (London)¹:

"We stand at the beginning of a new and very different phase of this war. Henceforth the United States is not to be merely a seller of such munitions as could be produced without disturbance to her normal business; she is to be an arsenal. Production for war is not to be a marginal activity, restricted by license and deprived of credit; it is to be an activity to which 'in the immediate future everything in our national life must be subordinated.' There can be no question that it is by far the most powerful economic unit in the world that is thus being mobilised. In national income, the most comprehensive measure of economic potential, the United States outweighs either Great Britain or Germany fourfold; its annual output is probably twice as great as that of the whole Continent of Europe, victors and vanquished alike."

"The criticism has been made of America's participation in the last war that it was planned on too grandiose, too perfect a scale, designed to turn out thousands of ideal weapons in 1919 rather than hundreds of usable weapons in 1918. There should be an emphasis on improvisation now rather than on the industries already existing, so far as they can be used, rather than wait for hundreds of new factories to be built, equipped and staffed. This means, of course, an immediate deprivation of the public; existing factories cannot continue working for the consumers' market if they are to be turned over to war production. British experience has shown the error of giving the public convenience priority over the nation's safety.

"The President's Budget message on Wednesday clearly reflected both the size of the ultimate programme and its present small beginnings. The total amount appropriated for defence has now risen to the very respectable total of \$28,480 millions; but only \$6,500

millions of this is to be spent before June 30, 1941. (These figures do not include the cost of munitions 'leased' to other countries.) For a nation whose potential national income is nearly \$100,000 millions, these figures are not large. It has been commented that they do not raise any immediate danger of inflation. The comment is really a criticism, for it can be taken as axiomatic that no nation can do its utmost in modern total warfare without running the risk of inflation — without, that is, increasing the output of warlike goods to such an extent that the consumption of the public has to be seriously reduced. In the financial, as well as in the industrial, aspects of war economics, America is still only at the beginning of the story. The world will impatiently await its development."

Perhaps the most remarkable feature of this statement is the belittlement of our aid to Britain even before it has been rendered. The sacrifices that the American people will be called on to make will apparently involve lower living standards as a result of the rationing of consumer goods and higher living costs.

BUSINESS

Department-Store Sales

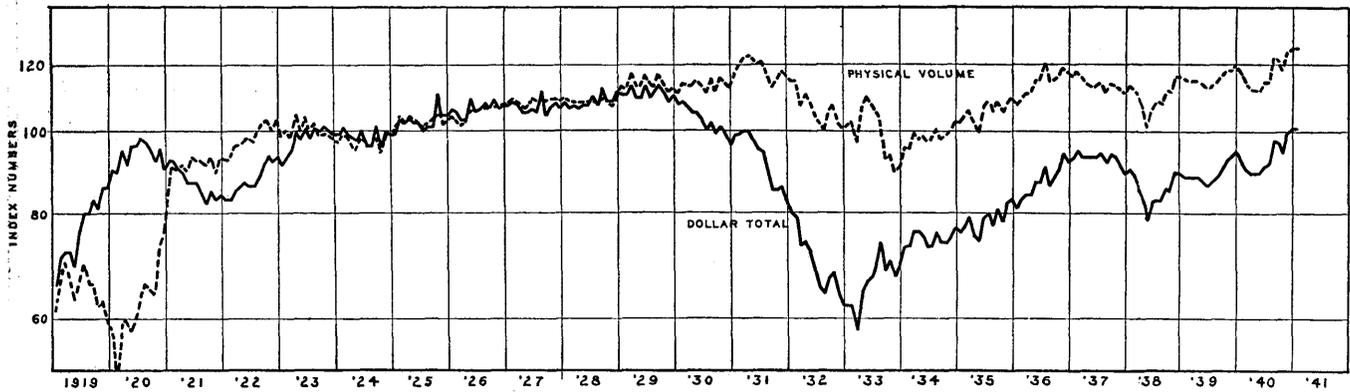
After reaching a new postdepression high in December 1940, at 101 per cent of the 1923-1925 monthly average, the Federal Reserve index of department-store sales based on dollar totals remained at the same level in January 1941. The accompanying chart shows that the general trend of the dollar total curve has been irregularly upward since March 1933. The only serious and sustained decline during this period was from September 1937 to May 1938.

The chart, in addition to presenting the Federal Reserve index of dollar totals, shows the physical volume of department-store sales (obtained by adjusting the dollar total for changes in department-store retail prices). Although the dollar total of department store sales has failed to attain the high level of the New Era period, the physical volume has recently been at new high levels. Neither of the two series shown on the chart has been adjusted for growth in population. However, even after adjusting for population growth, the physical volume of sales is as great as the average for 1929.

The trend of the two curves has been nearly parallel during recent years, because price changes have been unimportant. The most significant feature in the rela-

¹ *The Economist*, London, January 11, 1941, page 33.

DEPARTMENT-STORE SALES



tionship of the two curves during the earlier years shown is the evidence of a great shrinkage in physical volume during late 1919 and early 1920, when commodity prices were soaring. The physical volume of department store sales reached a low point in 1920, reflecting the "buyers'" strike that was given prominent newspaper publicity at the time. There was a rapid decline in prices from the summer of 1920 to the summer of 1921. This was accompanied by a prompt and substantial rise in the physical volume of sales, although the dollar volume was declining.

The index of physical volume remained at a higher level than did the index of dollar sales during 1921 and 1922, when consumers were making purchases that had been postponed during the buyers' strike of 1919 and 1920. From 1922 until 1930, commodity prices were stable, and the indexes of physical volume and of dollar sales followed a substantially identical trend.

After the stock-market break in 1929, when retail prices began to decline, the physical volume of sales at retail was maintained and in 1931 reached its high for the entire period. Consumers were taking advantage of apparent bargains that were offered by the department stores, and, until the continuing depression seriously curtailed the public's buying capacity, consumers were able to continue substantial purchases. During the period from 1929 to 1933, the slump of the dollar-total curve, compared to the index of physical volume, shows that the decline of prices was more rapid than the contraction of physical volume. The extreme divergence of the trend in 1932 and early 1933 reflected the sale of goods at depressed prices.

The physical volume of sales increased substantially in the summer of 1936, when the soldiers' bonus was paid and turned downward early in 1937, although the dollar volume of sales was maintained about unchanged throughout the greater part of that year. Rising retail prices met consumer resistance, and, on a much smaller scale, the divergent trends of 1919 were repeated.

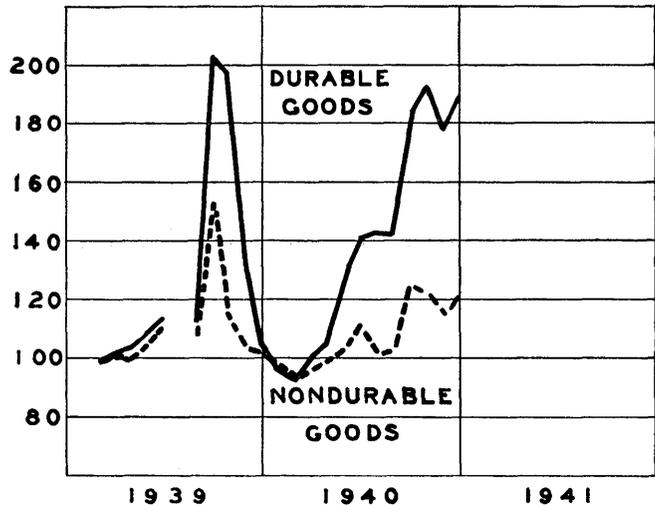
If average prices of department-store goods remain stable or advance but slowly, both the dollar total and the physical volume should be sustained during 1941. However, if merchants fail to prevent a substantial uprush in prices, there may arise a situation similar to that during the World War period, when the public decided to do without rather than purchase consumer goods at inflated prices.

Ratio of New Orders to Inventories

Our chart of the ratio of new orders to inventories for durable and nondurable goods was first published in

the December 9, 1940 weekly bulletin (pages 208-209). Subscribers will find there a brief description of the statistical data used, together with a discussion of fluctuations in the ratios from February 1939 to September 1940. The chart is shown in this issue with data through December 1940.

RATIO OF NEW ORDERS TO INVENTORIES
(Manufacturers')



Note: Indexes for July 1939 are not yet available.

Although there were fluctuations in the ratios during the final three months of 1940, there was no appreciable net change. There was an increase of 16 per cent in durable goods' inventories and five per cent in nondurable goods' inventories from December 1939 to December 1940. This considerable increase in supply would ordinarily suggest that accumulations were becoming abnormally great and that a readjustment involving a serious decline in industrial production would be required to correct the situation. However, the indexes of new orders show that there was an increase of 114 per cent in durable goods' orders and 15 per cent in nondurable goods' orders during the twelve-month period. Obviously, supply can be judged only in relation to demand. Therefore, in spite of the extensive increase in manufacturers' inventories, a satisfactory relationship of supply to demand is indicated by the greater increase in the new orders' indexes.

The high level of the ratios derived by dividing the new orders' indexes by the indexes of inventories for

the durable and nondurable goods' industries during recent months is obviously traceable to the Government's national defense program, directly through orders actually placed and indirectly through the desire of buyers to anticipate possible shortages. Manufacturers' inventories will probably continue to accumulate during the next few months, but the volume of new orders will probably be sustained for several months. Presumably, a marked decline in the ratio of new orders to inventories will precede a cyclical downturn in production, unless production is curtailed suddenly because of circumstances that cannot be predicted.

Business Information

Inasmuch as the United States Bureau of Foreign and Domestic Commerce is by far the most important source of business information, the announcement that the Bureau has given priority to national defense functions has naturally aroused the fear that the flow of these statistics will be interrupted. However, a recent statement by the Secretary of Commerce is reassuring.

Secretary Jesse Jones said in part: "The realignment of the Bureau for defense purposes is designed to increase, not to diminish, the services which have been rendered in the past to the public, but complete priority will be given to any assignment to advance the defense program.

"Plans for both defense and nondefense operations of business and industry must be based on a complete knowledge of the Nation's economic structure and operations. This knowledge must be kept up to the minute, so that necessary facts can be produced quickly whenever need for them arises."

The editor of *Domestic Commerce*, a weekly bulletin of the United States Department of Commerce, said: "No functions of value to American business have been abolished. Those functions, both foreign and domestic having to do with today's stern realities have been strengthened."

In view of these statements, it seems possible that the collection and dissemination of business information will be accelerated rather than curtailed by the reorganization of the Bureau for national defense. Since the war started, the Bureau has made a special effort to present export and import data more promptly than formerly, and the gathering and publication of other data may be similarly expedited.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week advanced from 96 to 97 per cent of theoretical capacity. The rate was 68½ per cent in the corresponding week of 1940, when a downward trend was evident. The *Iron Age* stated: "Steel sales in January, having been well above those of December, the upward trend of last month has been continued into this month. In some products the mills are almost entirely sold out for second quarter and are booking orders for third quarter and even to the end of the year. Passage of the lend-lease bill will be followed by the placing of a considerable number of British-aid contracts, for which steel requirements are estimated at 3,000,000 to 4,000,000 tons."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	87.0	27.0	84.0	30.5	68.5	97.0
(Latest 1941 weekly data; corresponding week earlier years)						

Electric-power production last week was approximately the same as it was in the preceding week, although a seasonal decrease is normal. The gain from output in the corresponding week of 1940 increased from 11.3 to 11.9 per cent. Substantial gains were reported from non-industrial as well as from industrial regions.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.72	1.58	2.20	2.05	2.52	2.82

The automobile industry produced 125,000 cars and trucks last week, compared with output of 124,400 units in the preceding week and 95,985 in the corresponding week of 1940. It is reported that automobile companies were awarded national defense contracts of \$31,600,000 this week. The industry's high rate of pleasure-car production evidently reflects the efforts of executives to accumulate stocks, so that there will be no scarcity when the industry's facilities are partially diverted to defense production.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	122	29	72	51	96	125

The cotton goods' industry maintained its high rate of activity last week. The seasonally adjusted index advanced fractionally from 147.6 (revised) to 148.0.

	1929	1932	1937	1938	1940	1941
New York Times Index	*	89.7	138.4	87.2	121.0	148.0
* Not available until third week in March.						

Lumber production increased more than seasonally last week and the adjusted index advanced from 137.3 to 139.5. It is now 24 per cent higher than it was a year ago.

	1929	1932	1937	1938	1940	1941
New York Times Index	122.8	39.0	69.3	56.6	112.2	139.5

Demand

There was a substantial improvement in retail trade in some sections of the country last week, which merchants attributed to the ebbing of the influenza epidemic. Pacific Coast cities, where trade was first affected by the epidemic, are now providing the most favorable reports. More recent reports show that there were more substantial increases this week. Outstanding gains were made in Philadelphia, Richmond, St. Louis, Chicago, Cleveland, Kansas City, Dallas, Boston, Atlanta, New York, and San Francisco in the order named.

The enforcement of priorities in the machine-tool industry, effective March 3, was the first example of mandatory Government control over industry in the national defense program. It is now expected that priority orders will be confined to the metal industries where extraordinary demand is heaviest. If this proves to be true, the effect on private consumers should not be serious. There will probably be scarcities of special machine tools, but the supply of general utility tools, such as standard lathes, drills, planers, milling machines, and so forth, should be adequate for the production of nonmilitary requirements. The elimination of radical changes in pleasure-car models for a season or two may be welcomed by those who find it difficult to "keep up with the Jones's."

Prices

The sensitive wholesale commodity price indexes advanced fractionally last week. Moody's Spot Commodity Price Index was 172.5 on February 6 and 173.0 on February 13. The Dow-Jones Index of Commodity

Futures closed at 55.90 on February 6 and at 56.00 on February 13.

FINANCE

The Harwood Index of Inflation

Although the Index of Inflation advanced during the week in which the Treasury undertook new borrowing operations (January 29, 1940, to February 5, 1941), the advance was only fractional. The revised Index for January was 109.0 (based on bank data as of January 29) and was 109.3 calculated on the basis of bank reports for February 5.

The Treasury's second important issue of national defense series was in the form of $\frac{3}{4}$ per cent taxable notes of $3\frac{3}{4}$ years' maturity. A total of \$635,000,000 par value was sold January 31. Although most of this issue was sold to the commercial banks (the reporting member banks of the Federal Reserve System alone purchased about \$350,000,000 of the issue), there were no important inflationary effects immediately apparent.

Most of the new credits created by the banks in payment for the notes were left as deposits in the Federal Reserve Banks or in "special depositaries account of sales of Government securities." The Treasury's accounts with these depositaries increased from \$555,000,000 on January 29 to \$1,160,000,000 on February 5, and the inflationary effects of the newly created bank credit will be felt as the Treasury's accounts are depleted as a result of national defense spending. These effects will be modified to the extent that the banks dispose of the newly acquired securities to savings institutions.

During the month of January, the Federal Government increased its indebtedness \$824,000,000. Most of the increase was accomplished through the \$635,000,000 note issue; the remainder of \$189,000,000 was obtained from sales of savings bonds. No portion of the latter was inflationary unless the bonds were used as collateral for bank loans.

New Capital Issues

The volume of new capital issues during the first month of 1941 was not large, but it was above the average for that month during the past decade. Nevertheless, the total was slightly less than the monthly average in 1940.

A large proportion (nearly 60 per cent) of the new borrowing in January was undertaken by the railroads to finance the purchase of new equipment. This obviously is intended to prepare for heavier freight traffic resulting from greater national defense efforts. New capital for expansion was also sought by the public utilities and by steel and petroleum corporations.

New corporate financing in January during each of the past sixteen years is shown in the following summary.

NEW CORPORATE FINANCING IN THE UNITED STATES			
Year	January	Year	January
<i>(In Millions of Dollars)</i>			
1926	510	1934	6
1927	490	1935	5
1928	372	1936	73
1929	551	1937	96
1930	566	1938	46
1931	400	1939	5
1932	47	1940	36
1933	22	1941	53

Source: *Commercial and Financial Chronicle*.

SECURITIES

Bonds

The bond market failed to maintain the gain recorded in the preceding week, and the average declined to the levels existing before the rally in January. The Dow-Jones Average of Forty Bonds was 91.31 on February 6 and 90.33 on February 13.

Stocks

Last week stock prices lost the gains reported in the preceding week. The volume of transactions declined to the lowest level of the year.

RECOMMENDED BOOKS

"*Questions on Money and Banking*," by William E. Dunkman. Columbia University Press, New York. (\$1.00.)

This will be useful primarily in schools and colleges. Pertinent questions are asked about all important phases of the money-credit system, and they may be used for examinations or to stimulate classroom discussion.

"*The Problem of Co-operative Medicine*," by D. J. Tereshchenko, Work Projects Administration, New York City.

This booklet presents in separate sections views of the proponents and of the opponents of a subject that has become an important issue within the last few years. Whether or not socialized medical care is destined to become generally adopted in this country, the movement to establish it has reached the point where all citizens should be able to form an enlightened opinion. The average person will probably learn new aspects of the problem by reading this well-arranged summary of the opposing viewpoints.

"*A Guide to Bibliographies of Theses*," compiled by T. A. Palfrey and H. E. Coleman, Jr. American Library Association, Chicago. (\$1.25.)

This guide "attempts to cite all available lists of titles or collections of abstracts" of doctoral dissertations and masters' theses. It should be useful to advanced students and to those engaged in professional research.

"*What You Should Know About Life Insurance*," by Rosalie Armistead Higgins, the Home Institute, Booklet. (15 cents.)

This booklet describes the major types of life insurance policies and their use. We believe that some of the material could be improved. For example, the booklet states that, "The chief purpose for which term insurance is and should be sold is for business purposes." There are many young men starting in a business or profession who can carry adequate insurance for the protection of their families only if the protection is based on term insurance. Term insurance is suitable for such purposes, inasmuch as the premium is low and the need for this insurance will probably terminate when the policyholder's children mature.

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