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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Economic Aspects of War Involvement

Prime Minister Churchill's address before the House of Commons last week made it apparent that he realized the hazardous position of the British Expeditionary Force in the Balkans. In fact, by suggesting that Hitler's war machine may turn upon Turkey and "attempt to secure the granary of the Ukraine and the oil fields of the Caucasus as a German means of gaining the resources wherewith to wear down the English-speaking world," he implied that the British forces, which serve as a deterrent to such an operation while they remain in Greece, might have to be withdrawn. However, he also declared that "after all, everything turns upon the Battle of the Atlantic which is proceeding with growing intensity on both sides."

In discussing this phase of the war, Mr. Churchill made it clear that the United States would be expected to insure delivery of the war materials now being manufactured. "It will indeed be disastrous if the great masses of weapons, munitions, and instruments of war of all kinds made by the toil and skill of American hands at the cost of the United States and loaned to us under the Aid to Britain Bill were to sink into the depths of the ocean and never reach the hard-pressed fighting line."

Advocates of more active United States participation in the war point out that the Nation is already committed to the defeat of Hitler, that his enmity would be no greater than it is now, and that we would be no more vulnerable or subject to attack as a belligerent than as a nonbelligerent ally of Britain. Although these arguments are logical, they do not present all aspects of the situation; there are other consequences that would follow from an outright alliance with Great Britain.

If we become an active belligerent, whatever brakes there are now on Federal expenditures would be released and the chances of national insolvency would thereby be greatly increased. More burdensome restrictions and curtailment of the enterprise system could be imposed by the Federal Government when the Nation is at war than would be accepted by Congress under our present status of semibelligerency. There is little probability that the Federal straitjacket would be removed for a long time to come.

Although having only indirect economic significance, the Nation's economy would ultimately be affected by certain military considerations. Experience in all wars

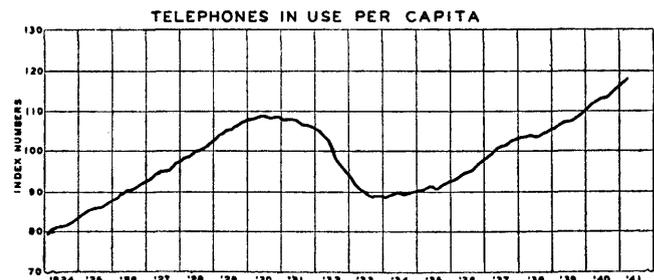
demonstrates the relative inefficiency of allied forces. The problem of coordinating the strategy of independent forces has constituted a major handicap from the Trojan to the present war. This problem would be intensified if, as an active belligerent, we are called upon for an expeditionary force, the great economic cost of which was demonstrated in the World War.

Finally, our involvement in the peace to follow the war would probably be greater if we become an active belligerent than if we retain our present status. No matter how desirable it would be to establish a workable social order throughout the world, it is possible that our "second chance" might result even more disastrously for us and for the rest of the world than our experience at Versailles did.

BUSINESS

Telephones in Use

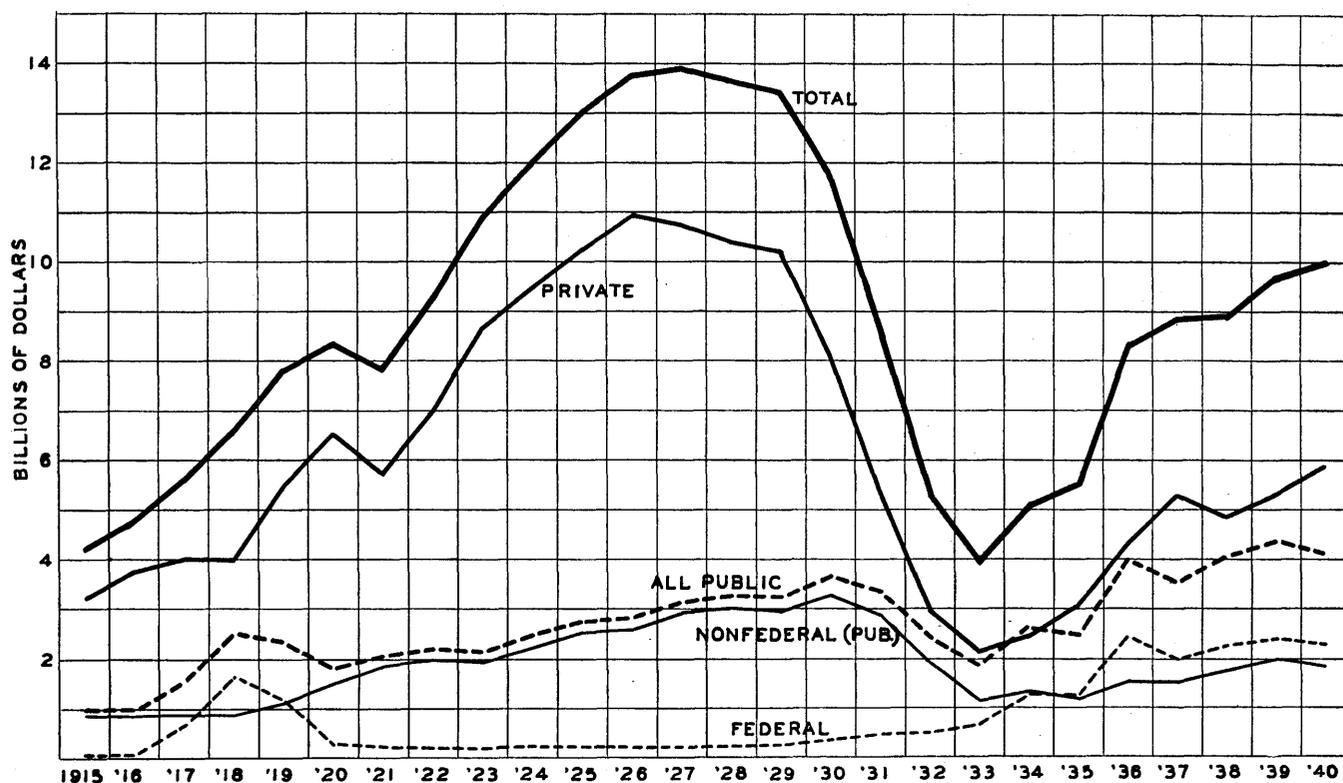
There was an increase of approximately 135,000 telephones in service during March 1941. This compared with an increase of about 130,000 in February and 100,000 in March 1940. The Institute's index of the number of telephone stations in service per capita advanced from 117.6 in February to 118.3 in March. The Institute's index has been revised, so that the base period is the same as that used for the Industrial Production Index; namely, 1935-39=100. The following chart shows the trend of the new index.



During the seventeen-year period shown, the number of telephones in service has increased from 11,500,000 to 20,000,000, a gain of 74 per cent; the population of the continental United States has increased from 111,415,000 to 132,170,000, only 19 per cent. The rate of growth for telephone service has therefore been substantially greater than the growth rate of the population.

The index reflects commercial activity to a greater

ANNUAL CONSTRUCTION AND MAINTENANCE COSTS



extent than it does industrial activity. Furthermore, the index usually lags changes in the cyclical trends of business. Apparently, the tendency is for commercial establishments to assume new telephone contracts only after a rising trend of business has been thoroughly established and to retain instruments in use until a major down trend is clearly discernible. In spite of this lag the index is valuable in showing the breadth of commercial activity, for which there are few comprehensive statistical indicators available.

Annual Construction and Maintenance

The United States Bureau of Foreign and Domestic Commerce has just published its estimates of all construction activity in the United States for the year 1940. We are therefore reproducing a chart that was presented in the December 16, 1940 bulletin (page 212) extended to 1940 in accordance with the new data. A description of the series and a discussion of trends of total construction and maintenance and the subdivisions by private and public construction accompanied the first publication of the chart.

Total construction and maintenance expenditures increased in 1940 from the corresponding outlays in 1939. The gain in private construction since the 1933 low level was greater than the gain in public construction.

Principal Exports in February

The Department of Commerce report of the value of merchandise exports for the month of February 1941 shows that there was a decrease from the January total. Most of the decrease is probably accounted for by the smaller number of shipping days in February than in January. The accompanying table summarizes

the value of exports for February by leading commodities in 1939, 1940, and 1941 and also shows the per cent change from exports in the prewar period (the per cent of February 1941 to February 1939 data).

UNITED STATES EXPORTS

Commodity	February (In Millions of Dollars)			Per Cent Increase Feb. 1941 from Feb. 1939
	1939	1940	1941	
Unmanufactured Cotton	13.7	44.3	3.8	72.3*
Unmanufactured Tobacco	10.2	3.2	3.0	70.6*
Manufactured Foodstuffs	15.2	22.4	13.2	13.2*
Iron and Steel Semimanufactures	9.6	26.6	22.7	123.6
Steel-Mill Manufactures	3.5	10.2	12.4	254.3
Copper Ingots, Plates, Rods	4.7	9.4	3.3	29.8*
Lubricating Oil	5.1	10.5	5.9	15.6
Industrial Machinery	20.6	29.0	37.5	82.0
Electrical Machinery	7.1	9.3	9.3	31.0
Motor Trucks	6.9	9.0	8.9	29.0
Passenger Cars	9.9	6.1	4.5	54.5*
Aircraft and Engines	6.8	18.0	27.5	304.4
All Other	102.9	141.0	146.3	42.2
Total	216.2	339.0	298.3	38.0

*Decrease

Most of our foreign markets for manufactured cotton, tobacco, and passenger automobiles have been lost because of the war, and there has been a substantial decline in copper exports. However, these losses have been more than made up by gains in exports of war materials. Exports of aircraft and engines, steel semimanufactures, and machinery increased impressively.

Although there was a gain of 38 per cent in the total value of exports in February 1941 from the prewar February, even more substantial earlier gains were lost after the fall of France, and the value of all exports during the past twelve months has decreased about 20 per cent.

THE FUNDAMENTALS

Supply

There was a slight decrease in the steel-ingot production rate last week from 100 to 99 per cent of theoretical capacity. The decline was attributable to the cessation of production for the Ford Motor Company, whose operations were suspended by the strike in the River Rouge plant. The *Iron Age* stated: "Although the threatened strike at plants of the United States Steel Corporation has been averted, temporarily at least, pig iron and steel output will be affected shortly unless there is a speedy settlement of the coal miners' strike and resumption of mining operations. Steel orders are pouring in to the mills at an undiminished rate, in some instances in excess of March tonnage. Curbs are being applied in various directions. For example, the automobile industry has been told that it cannot have as large a tonnage of steel as it desires for 1942 models to be produced in the last half. Further extension of priority and price control from Washington appears to be certain."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	96.0	22.0	91.5	32.5	61.0	99.0

(Latest 1941 weekly data; corresponding week earlier years)

Electric-power production last week was slightly less than it was in the preceding week, but the decrease was smaller than seasonal. Output was 16.7 per cent greater than that in the corresponding week of 1940, compared with a gain of 15.7 per cent in the preceding week.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.66	1.47	2.18	1.99	2.38	2.78

The automobile industry produced 116,255 units last week, compared with output of 124,165 in the preceding week. The decrease was moderate in view of the elimination of Ford production. Evidently, some of the other companies increased their assembly-line activities.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	138	36	97	58	102	116

The cotton-mill rate was unchanged last week, when a seasonal decrease was expected. The adjusted index advanced from 157.1 to 157.9. The volume of new orders now being received by the mills is smaller than it was before price quotations were raised.

	1929	1932	1937	1938	1940	1941
New York Times Index	110.9	79.8	139.9	90.6	113.2	157.9

Lumber production decreased moderately last week and the seasonally adjusted index declined fractionally, from 124.2 to 123.8. At that level it was 17 per cent higher than it was in the corresponding week of 1940.

	1929	1932	1937	1938	1940	1941
New York Times Index	142.1	40.8	85.0	60.3	104.9	123.8

Demand

The dollar volume of retail sales again increased last week and was 17 per cent greater than it was in the corresponding calendar week of 1940. The comparison was still distorted by the change in the Easter date. The Government has expanded its national defense spending greatly during the past few months. The following summary shows the increase in budget expenditures classified under national defense during the past twelve months.

1940	Millions of Dollars	1940-41	Millions of Dollars
April	159	October	287
May	154	November	376
June	153	December	473
July	177	January	572
August	200	February	592
September	219	March	729

Even at the March rate defense expenditures are far behind schedule and may be more than doubled within a few months.

Prices

The sensitive wholesale commodity price indexes remained within a narrow range last week. Moody's Spot Commodity Price Index was 184.8 on April 3 and 186.5 on April 10. The Dow-Jones Index of Commodity Futures closed at 63.86 on April 3 and at 63.37 on April 10.

FINANCE

Sources of Purchasing Media

The chart showing sources of purchasing media presented in this issue has been revised in accordance with more detailed information now available. The revision covers the period January 1940 to March 1941. It was found unnecessary to make significant changes in the

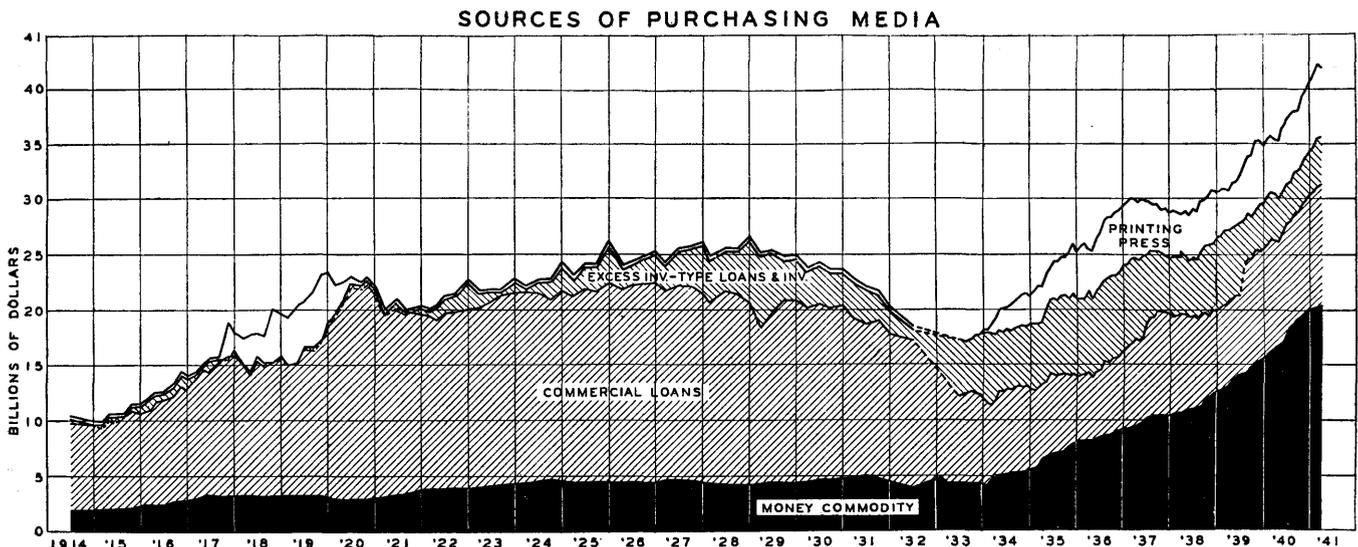


chart. The minor changes that were made will be revealed by a comparison between the chart on the preceding page and the chart on page 46 of the March 17, 1941 bulletin.

During March there was a decrease of \$350,000,000 in the purchasing media available to the public. This resulted primarily from payment of the first installment of the Federal income tax. The decrease in purchasing media was forecast by the decline in the Harwood Index of Inflation (preliminary) discussed in the March 31 monthly bulletin. This decline was characterized as a "brief deflationary interlude in an inflationary progression."

Purchasing media from the money-commodity source increased \$200,000,000 during March. This was a somewhat larger monthly gain than has been reported recently, but it was moderate compared with the monthly gains in monetary gold stocks that characterized the period immediately preceding the war and the war period, when large shipments of the metal were coming from Europe.

There was an increase of about \$100,000,000 in purchasing media derived from commercial loans last month. This type of bank credit has contributed substantially to available purchasing media during the past year; the total increase has exceeded \$1,000,000,000.

During March there was a moderate decrease in purchasing media derived from the third source (an excess of investment-type assets representing tangible property with respect to the savings available to the banking system). Although the commercial banks increased their holdings of direct Government securities, some Government-guaranteed and "other" securities were sold.

The net decrease for the month in aggregate purchasing media was caused by a decrease in purchasing media from the fourth source. Although the total par value of Government securities in the commercial banks' portfolios increased during the month, there was a substantial increase in Government deposits with the Federal Reserve Banks resulting from income-tax receipts. Government deposits are deducted from the total of purchasing media derived from the printing press, because such deposits represent funds temporarily not available to business.

Treasury reports show that the bulk of its receipts is concentrated in the months when income-tax payments, which constitute the most important source of Government revenue, are paid. Therefore, substantial sums are drawn from private to public accounts in the months of March, June, September, and December. The deflationary influences operating in these months are usually absent during the two months immediately following. The inflationary progression will therefore probably be resumed during April and May, although it may be temporarily halted again in June.

New Capital Issues

There was a resumption of activity in the new corporate capital market last month, when the total value of new issues increased to \$86,000,000; equal to the total for the first two months of the year. Except for November 1940, when the American Telephone and Telegraph Company's issue of \$140,000,000 was sold, last month's new capital flotations exceeded those in

any month since May 1940. The issues were for the purpose of financing the expansion of industrial and public utility plants. There was no important railroad financing undertaken during the month.

New corporate financing in March and in the first quarter of each year during the past sixteen years is shown in the accompanying summary.

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	First Three		Year	First Three	
	March	Months		March	Months
	(In Millions of Dollars)			(In Millions of Dollars)	
1926	441	1,331	1934	14	33
1927	393	1,402	1935	8	20
1928	363	1,144	1936	59	145
1929	703	1,868	1937	139	390
1930	629	1,651	1938	24	111
1931	267	739	1939	58	87
1932	48	134	1940	31	111
1933	3	27	1941	86	170

Source: *Commercial and Financial Chronicle*.

SECURITIES

Bonds

Speculative bonds led the down turn in the bond market last week. The Dow-Jones Average of Forty Bonds declined from 91.88 on April 3 to 90.73 on April 10. Although unfavorable foreign news was evidently the immediate cause of the decline, the fact that the bond averages had advanced 2.6 per cent since February 19 suggests that a reaction might have occurred in the absence of a specific adverse development.

Stocks

The decline in the stock market last week, coincident with initial Nazi successes in the Balkans, was not accompanied by a great increase in the volume of transactions. A shock to American confidence similar to that of last spring will not occur unless Nazi successes are carried beyond the Balkan area, an eventuality that will probably require a much longer period than was covered by the battle of France.

RECOMMENDED BOOKS

"*Statistics in Theory and Practice*," by L. R. Connor. Pitman Publishing Corporation, New York (\$5.00).

This is the third edition of one of the leading textbooks on statistics used by British educational institutions and statistical organizations. Its treatment of statistical procedure is similar to that in Professor Mill's "Statistical Methods," which has become a leading standard authority in the United States. A valuable feature of the present volume is the discussion of applied statistics. About one-third of the book is devoted to describing methods for the statistical analysis of population, prices, wages, employment, profits, trade, finance, production, wealth, and business activity. The third edition contains new methods for sample analysis, analysis of variance, and methods of adjusting for seasonal variations.

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