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RESEARCH REPORTS

COMING EFFECTS OF COMING EVENTS

Defense vs. New Dealism

The conflict between social reform and recovery that marked the first two terms of the New Deal has in the third term been transformed by the war into a conflict between further socialization and successful defense. Apparently, the defense effort will be hindered by inconsistent policies comparable to those that prevented a normal recovery from the 1932 depression.

Serious misgivings have been voiced in Congress over the appointment of Harry Hopkins, social reformer rather than administrator, to direct the huge lend-lease program. Recent reports of greatly enlarged spending plans invite the suspicion that the New Dealers are more concerned with the opportunity to promote their socialistic theories than they are with either aiding Britain or bolstering our own defense.

Satisfactory industrial relations are essential to productive efficiency, but the Administration has encouraged the labor unions to make the most of the emergency. Full use of the Nation's productive plants is essential to the defense program, but the Administration has declared against the relinquishment of restrictions on hours of work. National solvency is the keystone of defense, but the Administration has failed to curtail nondefense expenditures and is partially nullifying its price controls by yielding to pressure groups that demand their share of the "benefits."

Since the fall of France, the Government has moved impulsively to aid Britain on the assumption (at first encouraged by the British) that economic help alone would suffice. Only a minority in Congress and in the Administration have yet explored the more unpleasant contingencies. If Britain is conquered or if the struggle is protracted over the next decade, today's policies will have ill fitted us to cope with the worst possibility, and we cannot afford to ignore it merely because we hope for the best.

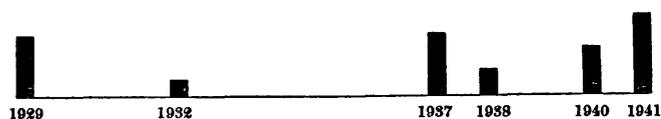
THE FUNDAMENTALS *Industrial Production*

The rate of industrial production, which had increased from August 1940 to March 1941, decreased moderately during April. The Institute's preliminary Index of Industrial Production for April is 129.8, compared with a revised index of 131.8 for March. The decline was primarily attributable to the strike of the bituminous coal miners and to the strike in the Ford

Motor plant, but other less serious labor tie-ups and shortages of a few essential minerals were also contributing factors. Although the Index is adjusted for seasonal variations, the seasonal factors are less important when capacity production is sought throughout the year as it is during the present emergency. Furthermore, even if there are more interruptions similar to those caused by the labor disturbances in April, increases in plant facilities and the greater use of existing facilities by twenty-four-hour operation will probably insure a generally rising trend in industrial production throughout the year.

In April the steel industry failed to maintain the record high rate of operations reached in March, but the bar charts show that the industry's output exceeded that in April for the years of active industrial operations, 1929 and 1937, by substantial margins. Production was about 65 per cent greater than it was in April 1940.

IRON AND STEEL PRODUCTION



The *Iron Age* summarized the situation in the steel industry last week as follows: "Greatly complicating its other problems is the loss of production of coke, pig iron and steel by the steel industry as a result of the continuance of the bituminous coal strike. Whether the miners go back to work this week or not, further production losses are inevitable as it will take some time to get back to the 100 per cent operation that prevailed in March. Ten or more blast furnaces have been banked or blown out while others are operating on reduced blast. The loss of pig iron has brought curtailment of steel making. The industry rate is down two and a half points this week to 96 per cent, which compared with the 100 per cent rate of March, means a loss this week of more than 54,000 tons of ingots and about 38,000 tons of finished steel at a time when every ton of steel is urgently needed."

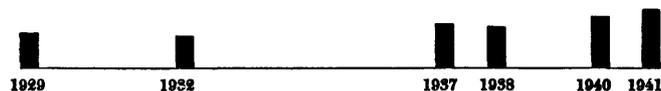
	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	88.0	22.0	92.0	32.5	62.0	96.0

(Latest 1941 weekly data; corresponding week earlier years)

Electric-power production during April 1941 compared favorably with output during the corresponding month of the years shown in the bar charts. Although

complete data for the month are not yet available, preliminary figures indicate that the actual number of kilowatt hours generated by the electric-power companies established a new high monthly record.

ELECTRIC POWER OUTPUT

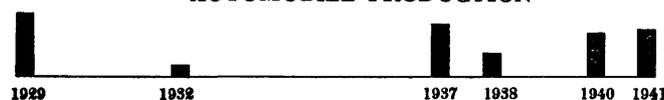


Last week there was a slight decrease in electric-power production from output in the preceding week. The dependence of about two-thirds of the industry's productive capacity on bituminous coal supplies may result in a real curtailment of electric-power generation if strikes at the mines are not settled promptly.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.71	1.47	2.18	1.95	2.42	2.70

April was the first month of 1941 in which automobile production failed to compare favorably with output in corresponding months of the other years shown in the bar charts. Production was only slightly in excess of that during April 1940 and was less than it was in April 1929 or 1937. The major factor responsible for the less favorable comparison was the Ford Motor Company strike, but the diversion of personnel and plant facilities to preparations for defense orders may also have been a factor.

AUTOMOBILE PRODUCTION

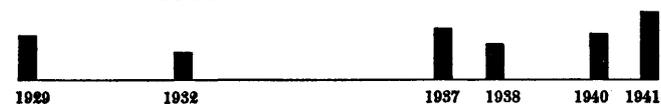


Automobile production last week was about unchanged from output in the preceding week. In each of the past two weeks, slightly less than 100,000 cars and trucks were produced, compared with a weekly rate of more than 100,000 a year ago.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	140	31	125	62	104	100

Entering the year at a high level of operations, cotton-mill activity has made successive gains in each month, and the index of cotton-mill activity reached a record high in April. The cotton-manufacturing industry has been able to meet extraordinary demands readily, because, until the defense program was initiated it had a larger proportion of unused capacity than the average for industry as a whole.

COTTON-MILL PRODUCTION



Cotton-mill activity increased contraseasonally last week, and the adjusted index advanced from 161.2 to 164.3.

	1929	1932	1937	1938	1940	1941
New York Times Index	110.5	73.4	135.5	83.3	112.2	164.3

Lumber output during April 1941 exceeded that in any of the years shown in the bar charts, with the exception of 1929, but the gain was somewhat smaller than it was in the preceding month. The trend since the beginning of the year has been generally less favorable than that of the other important industries discussed under this heading.

LUMBER PRODUCTION



Last week lumber production increased more than seasonally and the adjusted index advanced from 122.2 to 124.4.

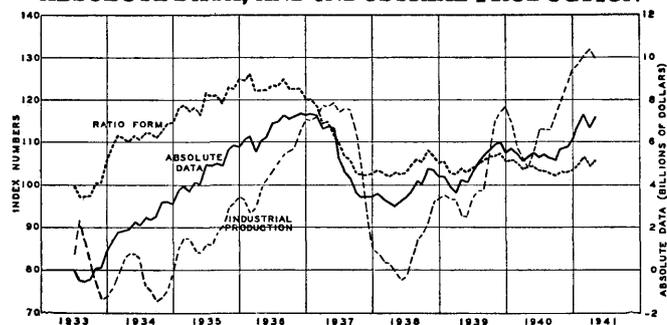
	1929	1932	1937	1938	1940	1941
New York Times Index	135.2	41.6	84.4	57.2	105.6	124.4

The Harwood Index of Inflation

The preliminary Index of Inflation for April (based on reports for April 16) is 105.8, more than a point higher than the revised Index of 104.5 for March. As the chart on page 69 shows, an inflationary trend was started in October 1940 that was not interrupted until March 1941, when income-tax payments caused the withdrawal of purchasing media from public checking accounts to Government depositaries. A discussion of this process, together with a brief general description of the Harwood Index of Inflation, was published in the March 31, 1941 bulletin (pages 52 and 54).

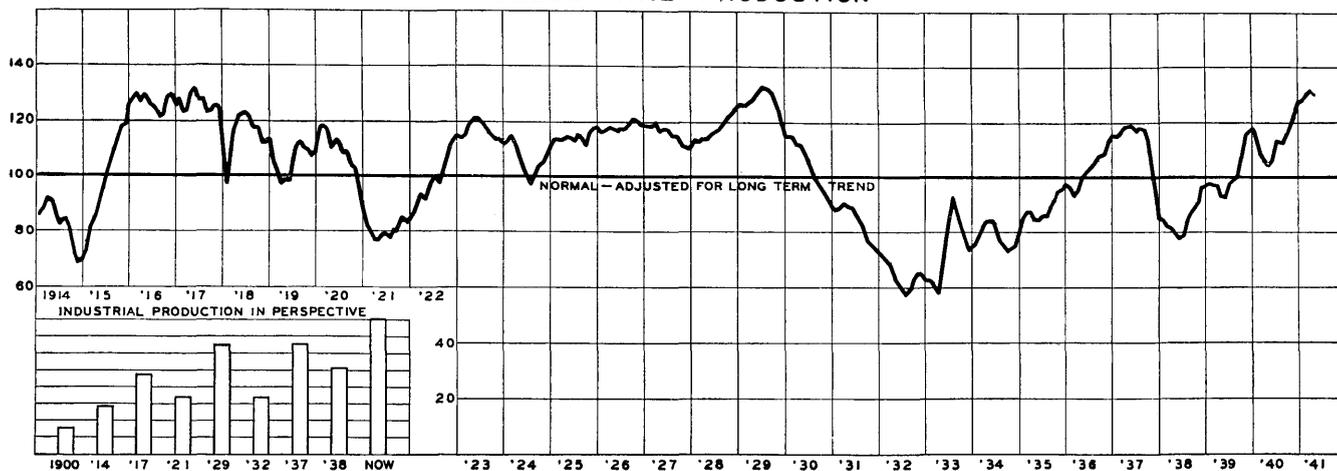
The advance in the preliminary Index for April was caused by an increase of about \$250,000,000 in the investment-type assets of the banking system and by a \$500,000,000 decrease in Government deposits with the Federal Reserve Banks. These inflationary influences were partly offset by an increase of more than \$100,000,000 in hoarded currency. The Institute's estimates of hoarded currency indicate that there is now a greater demand for currency for hoarding than there has been at any time since the banking crisis of 1933. Interest rates are now so low that many investors feel that they will lose only a small return on their capital by holding a portion of their funds in the form of currency. They apparently believe that hoarding may save them from excessive taxation or from the mandatory investment of savings in Government securities that might be imposed if the Nation becomes an avowed belligerent. However, the hoarding of a substantial proportion of an investor's fund will probably prove to be an unsatisfactory method of protection. If the Government decides to impose a capital levy or to require the investment of savings in Treasury issues, means for enforcement will be found just as they were in 1933, when gold certificates and coin were being hoarded.

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

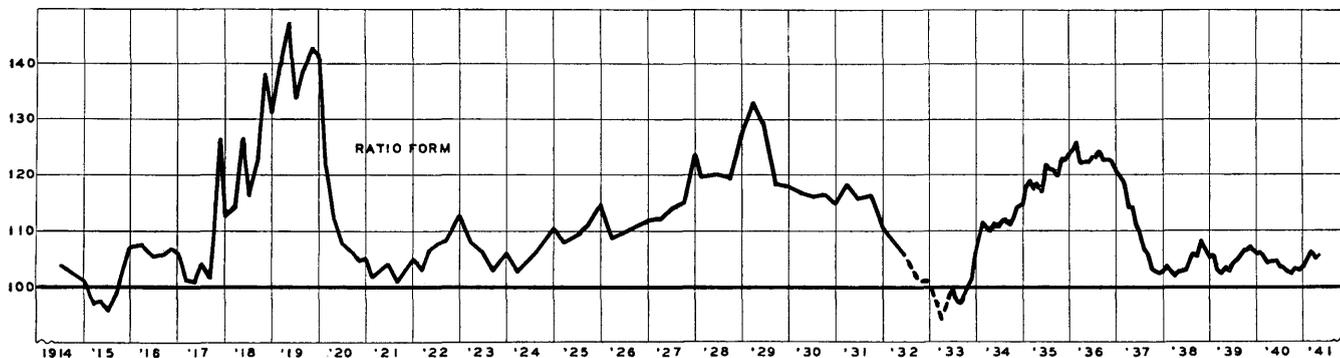


The foregoing chart, which presents the absolute data and industrial production, as well as the ratio form of the Index, shows that there was a greater increase in the absolute data than in the ratio form of

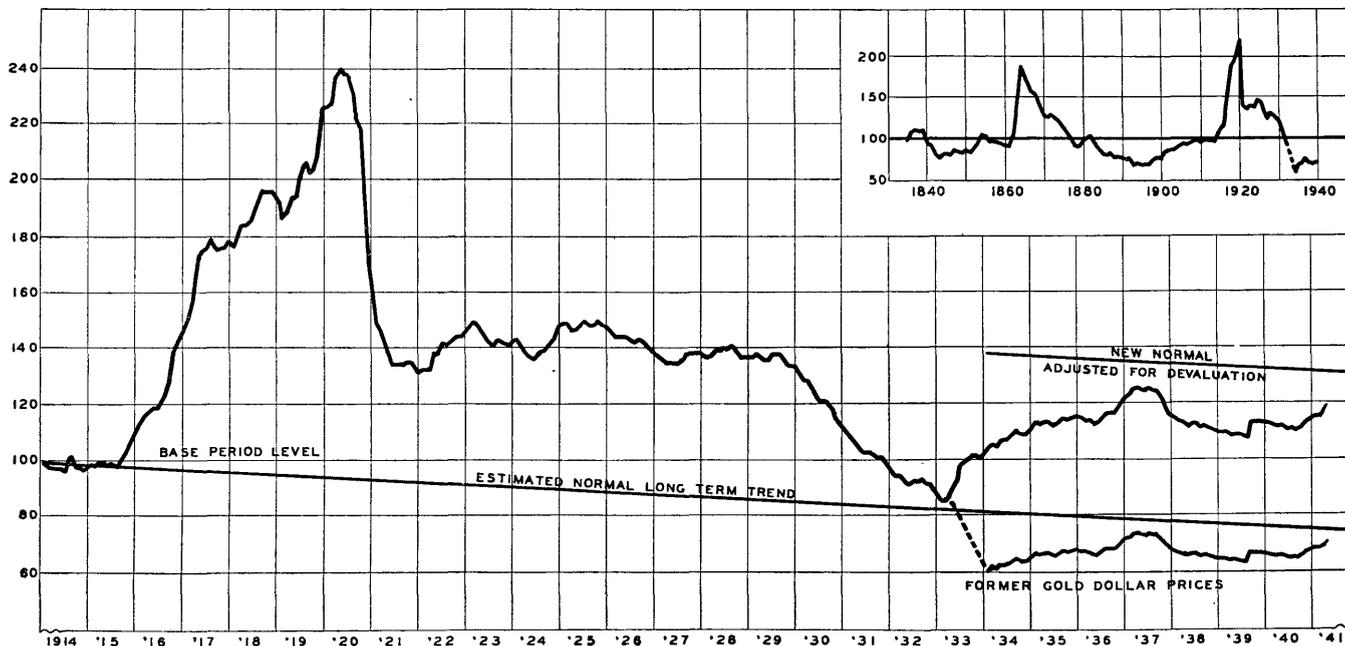
INDUSTRIAL PRODUCTION



HARWOOD INDEX OF INFLATION



COMMODITY PRICES



the Index last month. This is attributable to an increase in total purchasing media from sources other than bank credit, which was caused by the Treasury's expenditure of surplus funds accumulated during March.

Both the ratio form of the Index and the absolute data will probably advance substantially between now and June 15, when the next income-tax installment is due. The Treasury's budgetary deficit for the first nineteen days of April was \$640,000,000, and a deficit of \$1,000,000,000 for the month is in prospect. The rate of defense spending is accelerating rapidly, and an even greater deficit for May is virtually assured, unless the public's response to the offering of the new Defense Bonds is much greater than we believe to be probable.

Other Demand Factors

Reports from merchants throughout the country indicate that demand for consumer goods is more insistent than it has been since 1929. Prices of department-store merchandise have been raised moderately, but sales are shifting from lower-grade to the more expensive grades of merchandise. Department-store sales last week were 18 per cent greater than they were in the corresponding week of 1940. Substantial increases in canned-food prices have so far failed to reduce volume. Apparently, the public expects still greater increases. The Government's policy of encouraging higher prices for farm products evidently precludes the possibility of an early return to the lower prices for canned goods that prevailed only a few months ago.

Commodity Prices

The United States Bureau of Labor Statistics combined index of wholesale commodity prices advanced from 115.4 in February to 116.5 (revised) in March and to 118.8 (preliminary) in April. The increase in commodity prices during the past two months was the most substantial that has occurred since the broad upward movement that followed the outbreak of war in September 1939. As the chart on page 69 shows, the index is at the highest point reached since 1937, and it is also nearly as close to the long-term trend line adjusted for devaluation as it was at the height of the 1937 inflation.

In the accompanying table, the April preliminary indexes of the major commodity price classifications are compared with indexes for earlier periods. Changes in the separate classifications last month resulted in higher indexes with the single exception of the metals and metal-products groups. The most substantial increases were recorded by agricultural products. The groups classified as "farm products," "foods," and "textiles and products" each advanced about four points. In the three economic classes, raw-material prices increased three per cent; semimanufactures, two

per cent; and finished goods, about one and one-half per cent last month. The larger increase in raw-material prices normally forecasts a later increase in finished-goods prices.

UNITED STATES BUREAU OF LABOR STATISTICS WHOLESALE COMMODITY PRICE INDEX (Monthly Average 1913=100)

	Apr. 1929	Apr. 1932	Apr. 1940	Mar. 1941	Apr. 1941*
Farm Products	146.7	68.8	97.0	100.3	104.8
Foods	152.6	95.0	111.5	116.7	120.7
Hides and Leather	158.3	110.1	149.5	151.2	152.6
Textiles and Products	149.9	97.9	127.2	135.8	140.3
Fuel and Light	133.6	114.5	117.1	118.4	119.7
Metals and Products	112.7	88.4	104.1	107.8	107.7
Building Materials	169.8	127.9	163.1	175.5	176.2
Chemicals and Drugs	†	†	110.0	114.0	117.0
House Furnishings	167.0	135.5	157.0	161.5	162.5
Miscellaneous	117.3	92.7	111.3	110.7	111.9
Raw Materials	141.0	80.7	106.1	109.2	112.5
Semimanufactures	126.6	79.6	104.4	111.1	113.4
Finished Goods	136.9	102.4	117.0	121.5	123.3
All Commodities	138.4	93.8	112.6	116.5	118.8

* Preliminary Estimate

† In process of revision

The sensitive wholesale commodity price indexes were reactionary last week after a rise of two months' duration. Even if Government price controls prove to be only partially effective, they will add to hazards of speculative dealings on the commodity exchanges. Moody's Spot Commodity Price Index was 186.6 on April 17 and 185.2 on April 24. The Dow-Jones Index of Commodity Futures closed at 63.66 on April 17 and at 62.85 on April 24.

There was a fractional increase in the cost of living from the February to the March level according to the National Industrial Conference Board's index published last week. Food prices were higher, but other items remained about unchanged. The composite index and separate items for March 1929, 1932, 1940, and for February and March 1941 are shown in the following summary.

	Mar. 1929	Mar. 1932	Mar. 1940	Feb. 1941	Mar. 1941
All Items Combined	99.2	80.0	84.8	86.1	86.3
Food	103.6	72.2	76.9	78.8	79.2
Housing	92.0	75.7	86.6	87.7	87.7
Clothing	97.6	69.7	73.2	73.1	73.2
Fuel and Light	94.6	88.9	85.8	86.4	86.4
Sundries	100.5	94.0	96.9	98.2	98.3

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Statistical Summary; Production, Purchasing Media, and Prices

	1940									1941			
	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.*
Index of Industrial Production..	104.0	107.6	113.1	112.9	112.8	116.3	119.8	122.6	127.0	128.5	130.2	131.8	129.8
Index of Inflation (ratio form) ..	104.3	104.6	103.6	103.5	102.8	102.3	103.2	103.0	103.6	104.9	106.5	104.5	105.8
Commodity Price Index.....	111.9	112.3	111.0	111.2	110.9	111.7	112.8	114.3	114.6	115.8	115.4	116.5	118.8
Commodity Price Index.....	66.2	66.5	65.7	65.8	65.6	66.1	66.7	67.6	67.8	68.5	68.2	68.9	70.3

(In terms of former gold dollar)

*Preliminary Estimate.