

# 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

June 2  
1941

## R E S E A R C H R E P O R T S

### COMING EFFECTS OF CURRENT EVENTS

#### *The President's Speech*

Although the full implications of the President's speech last week are not yet apparent, the address, embodying arguments calculated to win over the isolationist elements, clearly indicates another move toward complete involvement in the war. By declaring the existence of an unlimited national emergency, the President on the same day assumed powers that would enable him to implement a decisive war policy. The use that he will make of his emergency powers will indicate the extent of his determination to carry out the policies outlined in his speech.

The degree of the Nation's progress toward war can be partly measured by a careful study of the speech. It will be recalled that more than once in his 1940 campaign for reelection Mr. Roosevelt made definite pledges limiting our war involvement. "And while I am talking to you, mothers and fathers, I give you one more assurance. I have said this before, but I shall say it again and again. Your boys are not going to be sent into any foreign wars. They are going into training to form a force so strong that, by its very existence, it will keep the threat of war far away from our shores."<sup>1</sup> In last week's address, he said: "The attack on the United States can begin with the domination of any base which menaces our security — north or south." Whereas, in October 1940 the lines of the Nation's defense were drawn within this hemisphere, they have apparently been extended so far that a Nazi occupation of the Azores or even more remote bases would be construed as an act of aggression against our defense calling for our military intervention abroad.

The second indication of progress toward war involvement is of course the transition from the phrase "all aid short of war" that was popular during the Presidential campaign to the statement in last week's speech: "Our patrols are helping now to insure delivery of the needed supplies to Britain. All additional measures necessary to deliver the goods will be taken." This statement clearly implies that the President has determined to use convoys if necessary without waiting for Congressional approval.

The strongholds of isolationist sentiment are in the farm and labor groups. The former was told that, in the event of a Nazi victory, "The American farmer would

get for his products exactly what Hitler wanted to give." In making this prediction Mr. Roosevelt did not remind his listeners that statistics for 1938, the year preceding the outbreak of the European War, showed that exports of farm products were less than nine per cent of the value of farm marketings in that year. The labor group was told that, in the event of a Nazi victory, "Wages and hours would be fixed by Hitler. The dignity and power and standard of living of the American worker and farmer would be gone. Trade unions would become historical relics and collective bargaining a joke." The appeal to labor is based on the old argument for a protective tariff, that a Nation's living standards are determined by the lowest competing labor force. The argument, in effect, denies the soundness of the Hull trade treaty policy that had Administration backing before the war; and because it is an appeal to popular prejudices, its force is not lessened by its fallaciousness.

The real significance of the speech will be revealed only by future events. If the speech was merely intended to improve the Nation's morale and to stimulate production, there will be no decisive change in the Government's attitude. If, on the other hand, the President has decided to make an earnest effort to place the Nation's economy on a wartime basis, his ample powers will enable him to prevent further interruptions to defense production through strikes and to put a stop to the game of politics wherein every pressure group is free to make raids on the Treasury that must ultimately endanger the Nation's credit and the defense program. Observers attempting to judge the significance of the speech are advised to remember that action tells more than words do, especially the words of popular speakers who sometimes lose the thread of their thoughts or their real intentions in the obscure passages of their own rhetoric. Mr. Roosevelt's action with respect to present strikes and others pending will provide a clue to the seriousness of his intentions.

### WHAT NEXT?

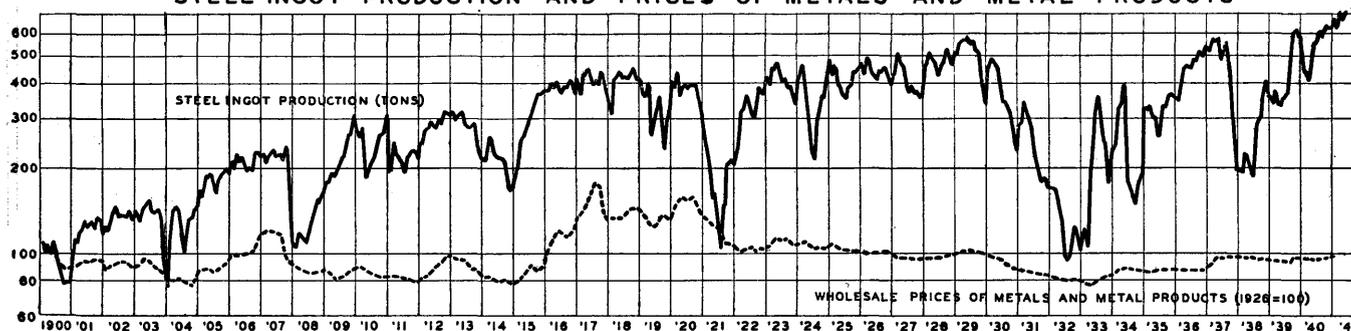
#### *The Continuing Record*

The latest available information regarding the more significant indicators of future trends is summarized

*Notice to Annual Sustaining Members:* A copy of the 1941 edition of *What Will Inflation and Devaluation Mean to You?* was mailed to you last week. If you did not receive it, please let us know.

<sup>1</sup> President Roosevelt's speech at Boston, October 31, 1940.

## STEEL-INGOT PRODUCTION AND PRICES OF METALS AND METAL PRODUCTS



in the accompanying table. A plus sign indicates an advance in the indicator; a minus sign, a decline; and a zero, an unchanged position.

	Latest Indication
Private Engineering Contracts (May)	+
Machine-Tool Activity (March)	+
Orders for Steel Boilers (March)	+
Capital Goods Stock Prices (Last Week)	-
Durable Goods Employment (April)	+
Steel-Ingot Production (Last Week)	-
Price of Metals and Metal Products (Last Week)	+
New Capital Issues of Corporate Securities (April)	-
Velocity of Purchasing Media (March)	+
Carloadings of Heavy Products (Last Week)	+
Lumber Production (Last Week)	-
Harwood Index of Inflation (May preliminary)	+

The number of favorable indicators of cyclical trends is the same in this summary as in the one published a month ago when there were eight pluses, four minuses, and no zeros.

### ***Steel-Ingot Production and Metal Prices***

Steel-ingot production, shown by the solid line in the accompanying chart, is unusually significant at present, because semifinished-steel products are the prime essentials in modern warfare. Reference to earlier years shown on the chart indicates that there is a tendency for the steel industry to follow a cyclical movement that usually lasts about three years. The most recent of these cycles included the years 1935-1937. After the sharp decline in steel production during the final quarter of 1937, recovery began in 1938, and an average cycle would have been completed late in 1940. However, in the past, steel production has been sustained at high levels for a more protracted period than three years when there were unusual circumstances, such as existed during the World War period and again during the period of inflation in the 1920's.

The impetus given to demand for steel at the outbreak of the European War in 1939 resulted in steel-ingot production reaching a new high level during the final quarter of that year. This rate of activity was not maintained during the early months of 1940, but was surpassed later in the year when the United States embarked on its national defense program. In spite of the bituminous-coal strike, which adversely affected steel production in April, the general trend of production has been upward during the first five months of 1941. (Net tonnage in February was smaller, because there were fewer working days in the month.) Even this high record will probably be surpassed later in the year, when new facilities become available.

The index of wholesale prices of metals and metal products (plotted in the dotted line on the chart)

reached a new postdepression high last month. Prices are now at about the level that existed during the New Era period of the 1920's. The technological progress made by the metal-producing industry has tended to maintain prices at a reasonable level during most of the forty-year period shown on the chart. The present level of the index is the same as the monthly average during 1900, although the combined index of all commodities is 50 per cent higher. The chart shows the effects of World War demands in 1915-1917 on the prices of metals and their products. The sharp decline in 1917 was caused by the action of the War Industries Board in effecting an agreement with the steel companies to lower prices drastically. During the war period and for several years thereafter, the index was substantially higher than the forty-year average, but the trend was clearly downward during the period 1920-1932. Even if the Government is successful in stabilizing semifinished steel prices at about the present level, the index of metals and metal products will probably advance further, because higher wages will force increases in the prices of finished-steel products.

## BUSINESS

### ***Exports in March***

The total value of exports including re-exports in March 1941 was \$357,200,000, compared with \$303,400,000 in February and \$350,800,000 in March 1940. The following brief summary indicates the relative importance of the principal markets now available for United States exports.

Destinations	UNITED STATES EXPORTS		Per Cent	
	Value in		of Total	
	Millions of Dollars		March	
	1940	1941	1940	1941
Canada	48.9	68.6	13.9	19.2
Mexico, So. and Cen. America	64.1	64.5	18.3	18.1
West Indies	8.6	11.7	2.5	3.3
United Kingdom	52.0	95.5	14.8	26.7
South Africa	6.0	15.8	1.7	4.4
Russia	9.1	4.2	2.6	1.2
Far East*	56.6	61.1	16.1	17.1
Other Destinations	105.5	35.8	30.1	10.0
Total	350.8	357.2	100.0	100.0

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

### ***Postal Receipts***

Postal receipts during the first four months of 1941 exceeded the volume for the corresponding period of 1940 by approximately six per cent. The dollar volume of postal receipts is primarily an indicator of commercial

## CONSTRUCTION CONTRACTS VS. BUILDING PERMITS



activity. The monthly series for earlier significant years and for the first four months of 1941 are shown in the accompanying table.

POSTAL RECEIPTS IN FIFTY LARGE CITIES  
(In Millions of Dollars)

Month	1929	1932	1937	1938	1940	1941
January	31.6	25.3	27.9	27.5	30.4	32.3
February	30.0	24.1	27.8	27.0	29.7	30.5
March	34.4	26.7	33.8	31.8	32.7	34.0
April	32.4	24.3	31.1	29.6	31.6	34.9
May	32.4	22.6	29.8	28.2	32.3	
June	29.3	22.0	29.6	28.0	28.7	
July	29.1	23.8	26.6	24.6	27.6	
August	29.3	23.9	26.3	26.6	29.0	
September	30.5	25.8	30.0	29.5	30.3	
October	35.7	26.7	31.7	30.9	35.2	
November	32.7	26.1	30.7	31.4	33.2	
December	40.8	33.1	42.0	42.5	45.4	

### *Construction Contracts vs. Building Permits*

The chart at the top of this page shows the trends of building permits and construction contracts in dollar value. A logarithmic or ratio scale was used in order that trends may be more readily compared. The two series are not strictly comparable, although each covers a substantial portion of the building industry. Contracts awarded indicate the volume of building that has actually started. Building permits are usually issued in advance of contracts and do not necessarily indicate that the buildings will be erected. Therefore, the trend of building permits usually shows sharper variations than that of construction contracts. During a period of general optimism, the volume of building permits increases more rapidly than the total of construction

contracts, and during a period of business curtailment permits issued decline more than do contracts awarded.

The fact that permits are not required for public works also affects the comparison of the two trend lines; consequently, when private construction is more active than public building, there is apparently a tendency for the chart of building permits to show a sharper upward trend than the chart of construction contracts.

Since the Great Depression, the proportion of public works to total construction has been greater than it was in former years. However, there was an improvement in the proportion of private construction to the total in 1939, and the curve of building permits advanced more sharply than did the curve of construction contracts awarded. Since then, because of the national defense program, the proportion of public building to the total has again been increasing, and the trend of the construction-contracts curve has been more favorable than the trend of the building-permits curve.

In spite of the substantial increase in outlays for construction during the past seven years, the current position of both indicators of building activity are below the best levels attained during the active period 1925-1929. This is not attributable to a decreased cost of production, because the cost indexes published in the *Survey of Current Business* are higher than they were fifteen years ago.

Although the \$950,000,000 Army cantonment program has been completed, the Government has been increasing its publicly financed plant expenditures. The *Survey of Current Business* for May asserted that contracts have been awarded on commitments made from June through April 15 for about \$800,000,000 of publicly financed plant expenditure, and private indus-

try itself financed (through aid from the Government in some cases) another \$350,000,000. "In so far as future contract awards are concerned, present plans call for roughly twice the publicly financed facilities for which provisions have thus far been made, and it is not unlikely that this figure will be further increased."

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate decreased from 100 to 99 per cent of theoretical capacity last week. The slight curtailment in operations was attributed to some shut-downs for the holiday. Memorial Day is not officially observed in the steel industry and, in any event, might be ignored in a time of emergency. However, some companies chose the holiday week-end in which to make repairs that would otherwise have had to be made during a week in which there was no general holiday. The *Iron Age* stated: "Consumption of steel for civilian uses is beginning to feel the effects of the mounting requirements for defense. That such steel uses as are not essential to defense or national welfare will be further restricted in the coming months is becoming more obvious with each passing week."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	95.0	22.0	83.0	28.5	78.0	99.0

(Latest 1941 weekly data; corresponding week earlier years)

Electric power output increased contraseasonally last week. The data for the weeks in 1940 and 1941 include power generated by Federal systems not previously reported. The new data increased the total about six per cent.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.62	1.43	2.21	1.97	2.59	3.01

Automobile production increased contraseasonally last week. The industry produced 133,560 units, compared with output of 127,225 in the preceding week and 96,810 in the corresponding week of 1940. Preliminary reports indicated that automobile registrations in April this year reached a record high level.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	111	45	138	45	97	134

Cotton-mill activity increased last week, and the adjusted index advanced from 164.7 (revised) to 168.2. Production probably will not be appreciably affected by the Government's imposing price limitations on cotton yarn. Finished goods prices have not increased to the degree that yarn prices have; therefore, the lower prices for yarn will be about in line with present finished goods prices.

	1929	1932	1937	1938	1940	1941
<i>New York Times</i> Index	117.7	64.0	141.9	80.8	111.8	168.2

Because of the Memorial Day holiday, reports of lumber operations could not be obtained last week. For purposes of comparison, data for the latest week available are presented.

	1929	1932	1937	1938	1940	1941
<i>New York Times</i> Index	132.3	42.1	93.8	58.7	107.0	116.1

### Demand

The volume of retail trade was well sustained last week and continued to compare favorably with the level reached a year ago. At the present rate of income

payments, as reported by the United States Department of Commerce, the annual total will exceed \$80,000,000,000. (Total income payments in 1929 were \$82,064,000,000.) When payrolls are increasing rapidly, demand for durable goods is especially stimulated. The public is making large outlays for new household equipment and for the latest models of passenger automobiles.

### Prices

During the past two weeks, the sensitive wholesale commodity price indexes were mildly reactionary after the rapid advances of the preceding fortnight. Moody's Spot Commodity Price Index was 197.4 on May 21 and 195.3 on May 28. The Dow-Jones Index of Commodity Futures closed at 69.69 on May 21 and at 68.65 on May 28.

At the same time that the Government was encouraging increases in the prices of agricultural products, the Office of Price Administration was taking action to impose price limitations on cotton yarns. The OPA charged that a speculative situation existed in the industry and ordered a price reduction of about 23 per cent on its products. This action was similar to that taken by the War Industries Board in 1917 in reducing steel prices from a speculative level. In that instance corporate profits of the industry were severely curtailed.

A substantial increase in retail food prices was responsible for the increase in the cost of living from the March to the April level, according to the National Industrial Conference Board's index. The composite index and separate items for April 1929, 1932, 1940, and for March and April 1941 are shown below.

	April 1929	April 1932	April 1940	March 1941	April 1941
All Items Combined	99.0	79.3	85.0	86.3	86.9
Food	103.0	71.8	77.4	79.2	81.0
Housing	92.1	74.6	86.7	87.7	87.8
Clothing	98.8	68.4	73.2	73.2	73.3
Fuel and Light	93.2	87.0	85.4	86.4	86.4
Sundries	100.3	93.9	97.0	98.3	98.3

## FINANCE

### The Harwood Index of Inflation

There was a fractional advance in the Index of Inflation in ratio form from 107.2 for the week ending May 14 to 107.5 for the week ended May 21. Although there was no appreciable change in the commercial banks' investment-type assets, there was a decrease of about \$300,000,000 in the Treasury's bank deposits and gold in the working balance of its general fund. This represented distribution to the public of funds previously hoarded, in effect, by the Government.

The advance in the ratio form of the Index would have been greater had there not been a marked increase in total purchasing media available to the public. The gain was greater than the amount distributed from Treasury balances. This was caused primarily by a substantial increase in the banks' volume of commercial loans.

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