AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

WEEKLY BULLETIN

August 11 1941

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Inflation's Progress

The House Committee's hearings on the new price-control bill have temporarily focused the spotlight of public opinion on inflation, especially on Mr. Henderson's graphic picture of what is to come unless Congress acts promptly. The most significant aspect of the Administration's concern about inflation, however, is the almost complete failure to deal with or even to discuss the underlying causes. All the emphasis is placed on that symptom of inflation, rising prices, and the attempts to control inflation thus far proposed are all intended to apply to such symptoms.

As was indicated in last week's bulletin, the President's message and the proposed legislation on this subject both fail to deal adequately with even the symptoms of inflation. It is of course impossible to cure any serious disease by half-hearted attempts to deal with symptoms, and the recorded experience of monetary history justifies the application of this analogy to monetary matters.

Another Basic Misconception

However, this crude notion that inflation can be controlled by trying to prevent some of its effects is not the only serious misconception entertained by the "planners" in Washington. It is bad enough to tie down the safety valve of prices when the economic boiler seems to be in danger of exploding, but it is even worse to add fuel to the roaring inflationary blaze that is responsible for the trouble in the first place. Precisely such action is nevertheless the daily procedure that is defended, in part at least, by Administration spokesmen.

We refer to a portion of the Government's spending covered by borrowing from the banks and the public. As everyone knows, some of the funds borrowed are the savings of individuals and businesses. Obviously, these purchasing media are not inflationary. An important part of the borrowing, however, is directly from commercial banks, and the purchasing media obtained by the Government are new inflationary credit originations in the form of demand deposits (checking accounts).

It is the opinion of certain New Deal "economists" that the new credit just mentioned is not inflationary or will not have any inflationary effects if the production of goods is increased sufficiently to balance the new purchasing media in the markets. They therefore argue that only a part, possibly a very small part of the new credit originations, is really inflationary.

Readers familiar with the Harwood Index of Inflation may at first be inclined to accept the argument just presented. There is an apparent similarity between the Government's borrowings of newly created demand deposits that happen to be balanced by increased production of goods and non-inflationary commercial loans. The latter likewise result in increased demand deposits and are balanced by goods en route to market. However, there is a subtle distinction, which is of vital importance.

The commercial loan is for a brief period, and the proceeds from the sale of the goods are used to repay the loan. Although new purchasing media are created to represent the goods en route to market, the purchasing media are withdrawn from circulation after the goods have been sold. The situation is different when purchasing media are created to finance Government deficits, because there is no repayment of the loan, no cancellation of the purchasing media within a brief period after certain goods have been sold. It is true that increased production may happen to counterbalance the first use of the newly created purchasing media; but, if the loan is not immediately repaid, the purchasing media remain in circulation on the demand side of the supply-demand forces that meet in the market place. At best, therefore, the inflationary effect of deficit financing (that part in excess of the savings obtainable by Government borrowing) may be postponed for a brief period.

More Remote Consequences of Present Trends

Misconceptions, such as those just discussed, are no doubt partly responsible for the Administration's confidence that inflation can be controlled. However, few individuals who understand the situation will share the Government's complacency, especially in view of recent evidence that some of the inflationists in Congress are already planning to take advantage of the situation that must follow. A recent press release by the Economists' National Committee on Monetary Policy throws light on this aspect of the subject. This message is in part as follows:

"The suggestion of the silver Senators should leave no doubts in anyone's mind that it is the first open, candid, and ominous announcement of the devaluationists in Congress of the coming drive to write off the Federal debt by writing up the dollar value of the gold and silver assets of the Government. This is what these Senatorial-

Heralds-of-things-to-come say: 'Should our national debt reach the sum now prophesied by some of our citizens, then the burden of such a debt, together with the state, county, city and district debts, coupled with taxes and the existing private debts, may seem [so great] that the present size and weight of the standard silver dollar may have to be reduced in order to regulate the value of the dollar to that point where the people can meet such taxes, interest and debts.

" 'If this eventuality should happen, then our accumulation of gold and silver monetary metals will go a long way toward liquidating our national obligations.'

"There it is, and it is undoubtedly the clue to what is to come. 'Liquidating our national obligations by devaluation' will, in all probability, be a vital issue in this country before this matter of a sound currency and an honest payment of public debts is settled. The American people had better wake up to a realization of the arrival of this great threat. It is no longer a probability; it has arrived! This business of paying public debts by devaluating the Nation's currency is an old story and an old trick — centuries old. It goes back to the dark ages and to the days when irresponsible or corrupt monarchs debased currencies and abused their subjects. There is nothing new, or progressive, or liberal, or smart about it. Instead, it is an old and evil device which these Senators suggest we 'may have to' revive."

BUSINESS

Telephones in Use

During July there was an increase of approximately 90,000 telephones in service, compared with an increase of 30,000 in July 1940. The Institute's index of the number of telephone stations in service per capita rose from 120.2 in June to 120.8 in July. This index, expressed as a per cent of the 1935–39 average, has advanced substantially since 1934. (The index is shown in chart form on page 112 of the July 14, 1941 bulletin.)

Commercial Confidence

The increase in newspaper advertising lineage, compared with the total in the corresponding week of 1940, was greater in June than it was in May. In June there was a gain of 4.9 per cent, compared with a gain of 2.1 per cent in the preceding month. There was a substantial decrease in automobile display advertising, although sales of new cars exceeded the totals twelve months earlier. The gain in advertising lineage was primarily in the form of increased advertising space taken by the retail stores, the most important group of newspaper advertisers.

Newspaper advertising lineage in the dailies of fifty-two cities in June 1940 and 1941, with the percentage increase of the latter in comparison with the record of the earlier period, is shown in the accompanying table.

Newspaper Advertising Lineage	*June 1940*	*June 1941*	*Per Cent Increase June 1941 From June 1940*
	(Millions of Lines)		
Classified	23.2	24.3	4.7
Display			
Automotive	5.6	4.9	*12.5**
Financial	1.5	1.7	13.3
General	17.0	16.3	*4.1**
Retail	55.9	61.2	9.5
Total	103.3	108.4	4.9

* Decrease

Industrial Relations

Comprehensive data regarding industrial disputes are prepared by the United States Bureau of Labor Statistics, but several months are required for the collection and analysis of the reports. Recently, data revealing the magnitude of the strike wave that impeded the national defense effort last spring have become available. It is immediately apparent from these figures that the general public had good reason to clamor for anti-strike legislation by Congress, and such legislation would probably have passed had it not been energetically opposed by the Administration.

The accompanying table shows the number of workers involved in industrial disputes during the first five months of 1941 and during each month of the preceding five years.

Workers Involved in Industrial Disputes
(*Thousands of Workers*)

	1936	*1937*	*1938*	*1939*	*1940*	*1941*
January	59	214	56	72	40	108
February	90	239	77	88	37	124
March	122	358	106	65	43	165
April	95	392	111	426	52	555
May	123	441	125	457	77	415
June	134	474	96	127	56	
July	125	354	86	212	83	
August	118	239	81	119	90	
September	130	160	133	104	108	
October	149	127	113	140	108	
November	157	119	75	130	102	
December	185	61	62	37	62	
Average	124	265	93	165	72	270*

* Five months

If the first five months of 1941 prove to be typical of the full year, the monthly average of workers involved in industrial disputes will slightly exceed that in 1937, when labor was taking full advantage of the establishment of the special privileges given it by the National Labor Relations Act. However, there are grounds for hoping that labor relations will be less disturbed during the second half of 1941 than they were in the first half. During the last two months, preliminary reports indicate that the strike wave has subsided and that the proportion of industrial tie-ups is now no more than "normal" in relation to the present level of manufacturing activity. This probably does not mean that the leaders of organized labor have abandoned their attempt to take advantage of the situation, but it probably does mean that they will be more circumspect in their methods.

During the period of serious labor disturbances in the years 1916–1920, the industrial disputes were caused primarily by the workers' demands for increased wages. The question of hours of work was usually raised for the purpose of obtaining higher rates for overtime. Strikes to enforce the closed shop are of course only attempts to facilitate the enforcement of future wage demands. The jurisdictional strikes, which have recently been numerous, are usually the equivalent of strikes for more pay, inasmuch as they are ordinarily intended to force the use of skilled labor for tasks that can be performed by less skilled workers.

The trend of living costs will of course have an important effect on the incidence of labor disputes. Labor officials have pointed out the dangers of an upward spiral of prices, as previous wage increases cause higher living costs, but it is only natural for groups of workers to endeavor to protect themselves by attempting to anticipate the trend and make sure that they will "get theirs" even if the general public must pay the bill.

THE FUNDAMENTALS

Supply

The steel-ingot production rate increased from 99 to 99½ per cent of theoretical capacity last week. Continuation of the present high production rate is threatened only by pig-iron and steel-scrap shortages that may be experienced this fall. The *Iron Age* stated: "Structural steel awards of 26,700 tons are almost double the 14,200-ton total of last week, with outstanding lettings including 18,400 tons in Washington and Oregon for transmission line towers for the Bonneville Administration. New structural projects jumped to 37,000 tons from 15,700 tons. Reinforcing steel awards advanced to 25,250 tons from 22,500 tons last week while new reinforcing steel projects, swelled by 22,000 tons for a War Department office building at Washington, soared to 39,475 tons from 11,100 tons last week. Vessel shipments of Lake Superior iron ore reached a new peak in July at 11,390,488 gross tons. The total for the season to August 1 is 40,216,408 gross tons, a volume well above any like period in history."

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Per Cent of Capacity	94.0	14.0	84.0	40.0	91.0	99.5

(Latest 1941 weekly data; corresponding week earlier years)

The electric-power industry set a new high record for production last week, when 3,226,141,000 kilowatt hours were generated, compared with production of 3,183,925,000 in the preceding week. The gain in output compared with production in the corresponding week of 1940 increased from 15.3 in the preceding week to 16.8 per cent last week. All regions except the Rocky Mountain and the Pacific Coast States, reported larger gains.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Billion Kilowatt Hours	1.73	1.43	2.26	2.12	2.76	3.23

There was a greater decrease in automobile production last week than has occurred in any other week this year. Output was only 62,146 vehicles, compared with production of 105,635 cars and trucks in the preceding week. However, last week's total was 3½ times the number produced in the corresponding week of 1940.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
Units (000 omitted)	114	24	80	15	17	62

Cotton-mill activity increased contraseasonally last week, and the adjusted index advanced from 180.8 to 188.6 per cent of estimated normal. July was the only month this year in which the cotton goods industry failed to increase its activity from the level of the preceding month (after allowing for the seasonal factor). There was a temporary decrease in operations during the middle of the month as a result of the withdrawal of yarn offerings from the market when the Office of Price Administration established a price ceiling for this class of cotton goods.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	113.8	73.4	139.9	119.7	119.3	188.6

Last week lumber production increased more than seasonally and the adjusted index advanced from 124.1 to 126.8. The volume of new orders increased ten per cent last week compared with the total in the preceding week.

	1929	*1932*	*1937*	*1938*	*1940*	*1941*
New York Times Index	129.1	36.2	91.8	71.4	109.2	126.8

Demand

The rush to buy women's silk hosiery last week when the Government removed existing silk stocks from the market emphasizes the importance of public buying in anticipation of scarcities as a stimulant to retail sales during the past year. Rising wage scales and wider employment opportunities have of course sustained this broad buying wave. The 42 per cent increase recorded by Sears, Roebuck's July sales in comparison with the July 1940 total is convincing evidence of the desire to buy consumption merchandise by the rank and file of the American people. Last week's gain in the Federal Reserve index of department-store sales from the index reported in the corresponding week of 1940 was 24 per cent, compared with a gain of 27 per cent, the same as that reported in the preceding week.

The problem of restricting consumer demand is aggravated by the reluctance of Congress to broaden the tax base materially as long as the defense program can be financed by increased corporate levies and by expanding bank credit. The Administration appears to favor restrictions of consumer credit by more stringent limitations on conditions of installment sales and charge accounts. Some regulations may be put into effect before the holiday buying season this winter. If so, the effective demand for durable consumer goods, two-thirds to three-fourths of which is sold on credit, will be adversely affected. However, more stringent measures than these will be required to induce the public to forego its first opportunity for a real buying spree since 1929.

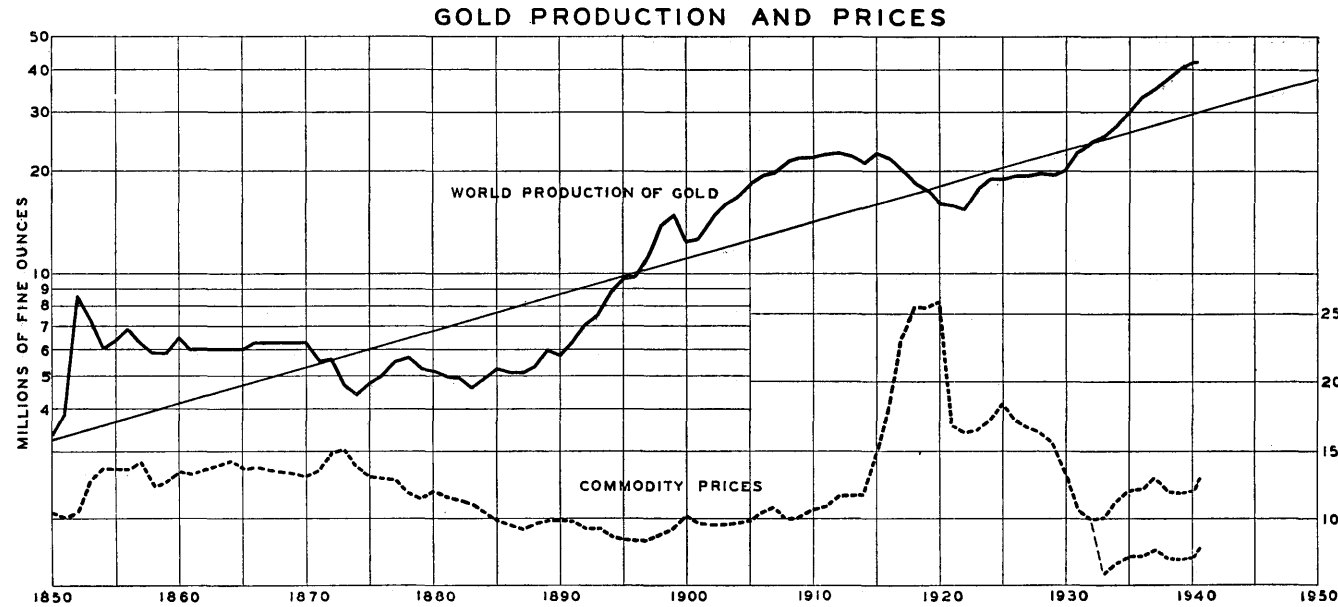
Prices

The sensitive wholesale commodity price indexes rose last week. Moody's Spot Commodity Price Index was 210.1 on July 31 and 313.6 on August 7. The Dow-Jones Index of Commodity Futures closed at 76.22 on July 31 and at 79.31 on August 7. At its present level the spot commodity price average is about three per cent higher than it was at the height of the 1936-37 inflationary price advance. The futures index is now 14 per cent above the high point recorded in 1937. Apparently, the reason for the different relationships of the two indexes to their 1937 record is that the spot commodity price index has a wider representation of commodity items than the futures index, which primarily reflects changes in the prices of agricultural commodities.

FINANCE

Gold Production and Commodity Prices

The relationship between commodity prices and gold production has been discussed from time to time in these bulletins and is described in the "Explanation of Basic Charts" that has been sent to all subscribers. Stated briefly, when commodity prices rise costs of producing gold usually increase. Production of the metal is consequently discouraged, and annual production decreases, because the price of gold is fixed in terms of dollars. Gold production is stimulated when commodity prices are low and is discouraged when commodity prices are high. The amount of gold produced each year also has an influence on commodity prices.



because as long as gold production continues at a greater-than-normal rate, total purchasing media increase more rapidly than normal.

The actual operation of these relationships has been observable during the past several years. During the period 1933 to 1936, the rate of increase in gold production steadily became greater, but the sharp rise in commodity prices during late 1936 and early 1937 apparently discouraged gold producers because the rate of increase of gold production was lower in 1937 compared with the rate of gain for 1936. Commodity prices declined sharply late in 1937 and early in 1938, with the result that gold production was again encouraged, and the rate of gain in 1938 and 1939 progressively increased.

Commodity prices throughout the world began to rise immediately after the outbreak of the war in September 1939. This failed to prevent an increase in gold production during 1940, but, as the chart shows, the rate of gain was smaller than it was in other post-depression years. On the basis of data for the first four months of 1941, world gold production for this year is stabilized at about the 1940 level. The decrease in the rate of gain during 1940 and the more recent leveling off in the rate of world gold production suggest that a turning point similar to that which occurred about a year after the outbreak of the World War in 1914 is in prospect. As the chart indicates, when commodity prices more than doubled during the inflation of 1915–1920, the rate of annual world gold production decreased greatly. Thus gold continues to prove its unique value as a money commodity, while unwisely managed governments demonstrate their lack of sufficient intelligence to take full advantage of its good qualities.

SECURITIES

Bonds

The bond market was somewhat reactionary last week, although losses in the general list were only fractional. The Dow-Jones Average of 40 bonds was 91.50 on July 31 and 91.23 on August 7.

Stocks

Prices of the industrial and utility groups of stocks remained about unchanged last week, but weakness in the railroad issues was apparently a reflection of the increased aggressiveness of the Railroad Brotherhoods in pushing their demands for an early wage advance.

RECOMMENDED BOOKS

"*Commodity Year Book 1941*," Commodity Research Bureau, Inc., New York City. ($7.50)

"*The Commodity Year Book for 1941*" maintains the excellent standard of statistical presentation and editorial capability that have led us to give unqualified recommendation to its predecessor volumes.

The editorial board states that the purpose of these annual books is to present important up-to-date information and statistics on the basic commodities, and expresses the hope that this volume answers most of the questions that develop in regard to commodities. The major portion of the book is devoted to the statistical analysis and discussion of seventy-five separate commodities. The charts are especially useful because they show the price movements of individual commodities for long periods, usually for eighty to one hundred years, or even longer. In addition to the price data, production, exports, and imports are shown in statistical tables. Preceding the analyses of separate commodities, there are studies of wartime control of commodities during World War I and in World War II and a section on war and commodity prices that presents charts showing the price behavior of leading commodities during the period 1914–1919 in comparison with the period 1939–first quarter 1941.

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