

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *War Aims*

The comparison of the recent Roosevelt-Churchill statement of war aims with the famous "Fourteen Points" announced as the war aims of the United States on January 8, 1918 by Mr. Wilson is interesting. Even if not fully enlightening as to the significance of the Roosevelt-Churchill meeting, it at least may prove illuminating to those older readers whose memories are short, and to younger readers who have forgotten their history lessons.

#### THE ROOSEVELT-CHURCHILL STATEMENT And Our Supplementary Comments *(The latter are in italics)*

#### THE FOURTEEN POINTS

1. Open covenants of peace, openly arrived at, after which there shall be no private international understandings of any kind, but diplomacy shall proceed always frankly and in the public view.

2. Absolute freedom of navigation upon the seas, outside territorial waters, alike in peace and in war, except as the seas may be closed in whole or in part by international action for the enforcement of international covenants.

3. The removal, so far as possible, of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance.

4. Adequate guarantees given and taken that national armaments will be reduced to the lowest point consistent with domestic safety.

*For obvious reasons, there is no mention of these principles after the recent secret meeting of Mr. Roosevelt and Mr. Churchill.*

Seventh, such a peace should enable all men to traverse the high seas and oceans without hindrance.

Fourth, they will endeavor, with due respect for their existing obligations, to further the enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity.

Eighth, they believe that all of the nations of the world, for realistic as well as spiritual reasons, must come to the abandonment of the use of force. Since no future peace can be maintained if land, sea or air armaments continue to be employed by nations which threaten, or may threaten, aggression outside of their frontiers, they believe, pending the establishment of a wider and permanent system of general

security, that the disarmament of such nations is essential. They will likewise aid and encourage all other practicable measures which will lighten for peace-loving peoples the crushing burden of armaments.

*Who will designate those nations that may threaten aggression in addition to those who now do so, and how will they be disarmed?*

First, their countries seek no aggrandizement, territorial or other.

Second, they desire to see no territorial changes that do not accord with the freely expressed wishes of the peoples concerned

5. A free open-minded and absolutely impartial adjustment of all colonial claims, based upon a strict observance of the principle that in determining all such questions of sovereignty the interests of the populations concerned must have equal weight with the equitable claims of the Government whose title is to be determined.

6. The evacuation of all Russian territory.

7. Belgium must be evacuated and restored.

8. All French territory should be freed and the invaded portions restored, and the wrong done to France by Prussia in 1871 in the matter of Alsace-Lorraine, which has unsettled the peace of the world for nearly fifty years, should be righted, in order that peace may once more be made secure in the interest of all.

9. A readjustment of the frontiers of Italy should be effected along clearly recognizable lines of nationality.

10. The peoples of Austria-Hungary, whose place among the nations we wish to see safeguarded and assured, should be accorded the freest opportunity of autonomous development.

11. Rumania, Serbia and Montenegro should be evacuated; occupied territories restored.

12. The Turkish portions of the present Ottoman Empire should be assured a secure sovereignty.

13. An independent Polish State should be erected which should include the territories inhabited

Third, they respect the right of all peoples to choose the form of government under which they will live; and they wish to see sovereign rights and self-government restored to those who have been forcibly deprived of them. *This has been Europe's curse since the beginning of recorded history. How can the existence of sovereign rights for all the petty states of Europe provide the framework for permanent peace? All the history that we know, even our own Civil War and present interstate barriers to trade here in the United States, seem to prove the opposite. For centuries, however, England has consistently followed this policy. Perhaps Europe is not yet educated to a better policy, but there is no point in pretending that this will lead to either justice or permanent peace. It will simply provide the background for the next world war.*

*Notice to Annual Sustaining Members: If you have not received the copy of the new edition of Investment Trusts and Funds from the Investor's Point of View that was mailed to Members last month, please let us know.*

by indisputably Polish populations, which should be assured a free and secure access to the sea, and whose political and economic independence and territorial integrity should be guaranteed by international covenant.

14. A general association of nations must be formed under specific covenants for the purpose of affording mutual guarantees of political independence and territorial integrity to great and small States alike.

Apparently, neither "Union Now" nor a new League of Nations could obtain the united support of Mr. Roosevelt and Mr. Churchill. Instead of such concrete proposals as Mr. Wilson's fourteenth point, there are only the pious hopes expressed in the fifth and sixth clauses of the Roosevelt-Churchill statement.

Fifth, they desire to bring about the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement and social security.

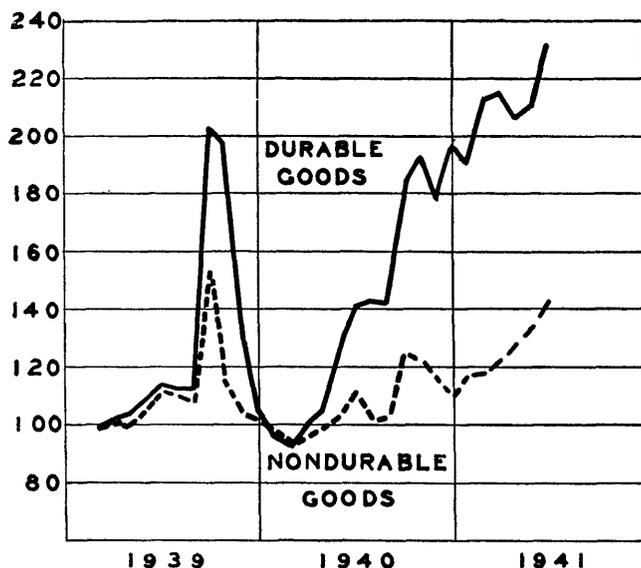
Sixth, after the final destruction of the Nazi tyranny, they hope to see established a peace which will afford to all nations the means of dwelling in safety within their own boundaries, and which will afford assurance that all the men in all lands may live out their lives in freedom from fear and want.

Boiled down, these aims seem to be little more than to put the European "Humpty Dumpty" back on the wall again. We have already learned that the King's "horses" were insufficient, and there is no doubt that the job, as now outlined, will require many more than the King's men, especially when it is remembered that the 1941 war aims include the entire world. If our official war aims have now been decided, it will be a long, long war. Such appears to be the principal economic significance of the Roosevelt-Churchill announcement.

### Demand-Supply Ratios

The figures released last week by the United States Department of Commerce provided the necessary data for calculating our demand-supply ratios for June 1941, and we are presenting the three demand-supply ratio charts in this issue. An explanation of the construction of these ratios, their significance, and a discussion of their fluctuations during the 1939-1940 period was

**RATIO OF NEW ORDERS TO INVENTORIES**  
(Manufacturers')



Base period, January 1939

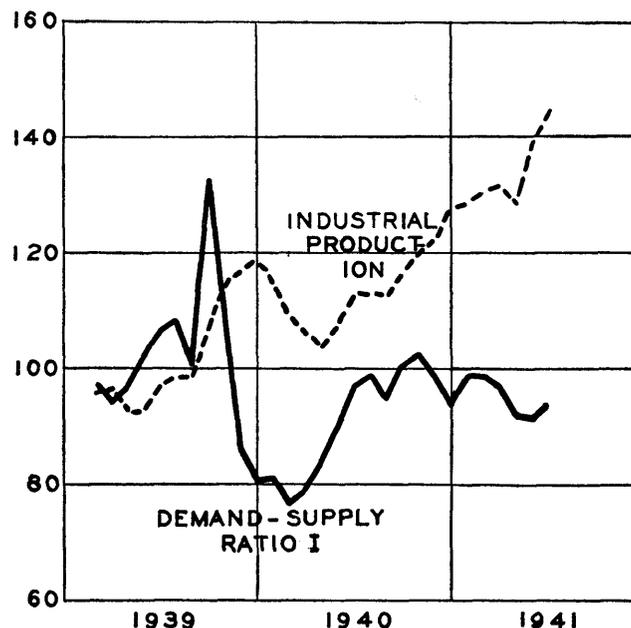
published on pages 116-117 of the July 21, 1941 bulletin. The preceding chart shows the ratios of new orders to inventories (the new orders indexes divided by the inventories indexes) separately for the durable goods and nondurable goods industries.

With only occasional setbacks that temporarily affected the trend, the ratio of new orders to inventories of durable goods has been rising since February 1940. It exceeded the high point made in September 1939 this spring, and the latest figure was substantially above the level recorded in the spring months. The value of the inventories of manufacturers of durable goods increased each month of 1941, although the total increase for the six months was less than six per cent. The value of new orders received by manufacturers of this class of goods did not increase consistently in each month this year, but the net gain for the period was 30 per cent.

The ratio of new orders to inventories of nondurable goods exhibited a more decisive upward trend during the past few months than it had previously during the period shown on the chart. The value of the inventories of manufacturers of nondurable goods increased moderately during the course of the year, the total increase aggregating less than six per cent. The value of new orders received by these manufacturers increased 37 per cent during this period. However, the nondurable goods ratio, unlike the durable goods ratio, has not yet exceeded the high record made in September 1939.

The following chart shows the Institute's Demand-Supply Ratio I (new orders divided by shipments times inventories) with the Institute's Index of Industrial Production.

**DEMAND-SUPPLY RATIO I**  
**VS. INDUSTRIAL PRODUCTION**



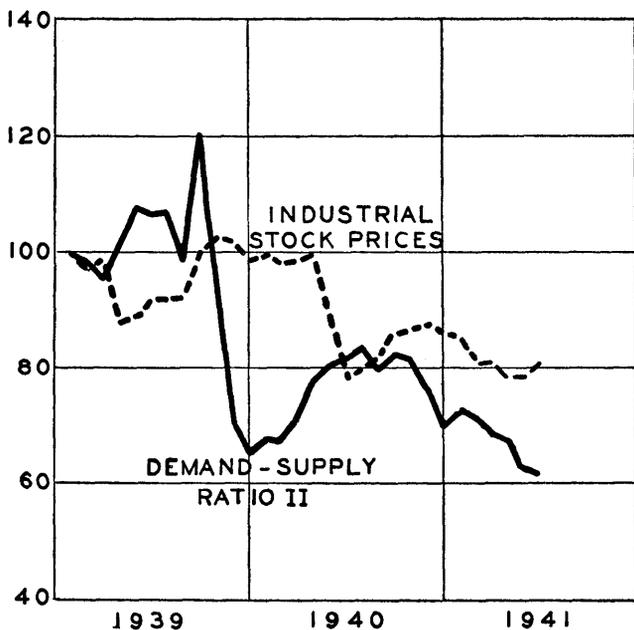
Base period, January 1939.

The index of the value of manufacturers' shipments has advanced substantially this year (more than 23 per cent during the first six months). Consequently, the ratio that includes the supply factor in the denominator declined moderately in spite of the substantial increase

that was recorded in the new orders index. Although Demand-Supply Ratio I advanced in June from the May level, the advance was not sufficiently decisive to indicate a change in the gradual downward trend followed since October 1940. On the other hand, there have been only minor interruptions in the upward trend of industrial production since April 1940.

Demand-Supply Ratio II, shown in the following chart with the index of 315 industrial stock prices, includes industrial production as well as shipments and inventories in the supply factor.

DEMAND-SUPPLY RATIO II  
VS. INDUSTRIAL STOCK PRICES



Base period, January 1939.

The rate of industrial production has increased substantially during the first six months of this year, and the inclusion of this factor in the denominator of Demand-Supply Ratio II accounts for the more pronounced downward trend in this ratio during recent months than is observed in Ratio I. During the first period shown on the chart, movements of Demand-Supply Ratio II were followed after a period of several months by similar changes in the trend of the industrial stock price index. Industrial stock prices were higher in June than they were in May, although the trend of the ratio chart continued downward. Demand-Supply Ratio II probably reflects the influence on the stock market of demand-supply factors but there are other factors, such as investors' confidence as affected by foreign news and the domestic political situation, and the general level of interest rates, all of which play a part in determining the level of stock prices. The fact that the stock market has recently been mildly reactionary may indicate that demand-supply factors are becoming more important as price determinants in the absence of favorable developments abroad. Certainly, there is nothing in the recent movement of Demand-Supply Ratio II to indicate a marked upward movement of stock prices.

A comparison of the new orders and shipments series indicates that manufacturers' backlogs of orders have increased greatly during the past year. Our research staff is making a study of the data to determine monthly changes in aggregate orders on the companies' books. The results will be presented in a future Research Report bulletin.

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate decreased from 99½ to 98½ per cent of theoretical capacity last week. The *Iron Age* summarized the situation in the industry as follows: "For the second time in 23 years, the government ordered all steel to be diverted to defense use where necessary for national defense. For the second time, makers of peacetime products must live off the leavings. After months of straining and stretching by steel makers to swell production — which at 47,730,225 net tons for the first seven months of 1941 was 63 per cent above the output for 1917 in the comparable period — defense agency leaders concluded that there was not enough steel for 'immediate delivery' for all defense and peacetime uses. For most steel makers, the past week was another period of taking orders far above their capacity to produce. Bookings at big centers, like Pittsburgh and Cleveland, ranged from 120 to 130 per cent of capacity. A report — this one will not down — that Britain is selling finished steel for export has been joined by suggestions that unwarranted steel inventories at some consuming plants, including a Navy Yard, should be looked into by the OPM in the light of the steel shortage which has made mandatory steel priorities necessary now."

	1929	1932	1937	1938	1940	1941
Per Cent of Capacity	93.0	14.5	83.0	40.0	89.5	98.5

(Latest 1941 weekly data; corresponding week earlier years)

Electric-power production last week exceeded that in the corresponding week of 1940 by 15.5 per cent, approximately the same gain that was recorded in the preceding week. The Rocky Mountain and Pacific Coast regions were the only ones that failed to report substantial gains in the distribution of power.

	1929	1932	1937	1938	1940	1941
Billion Kilowatt Hours	1.73	1.42	2.30	2.13	2.74	3.20

Output of the automobile industry decreased from 62,146 units to 41,795 units last week. Suspension of operations at the end of the model run will probably be minimized this year, because there will be no essential changes made in some of the 1942 cars from this year's models.

	1929	1932	1937	1938	1940	1941
Units (000 omitted)	112	21	103	14	12	42

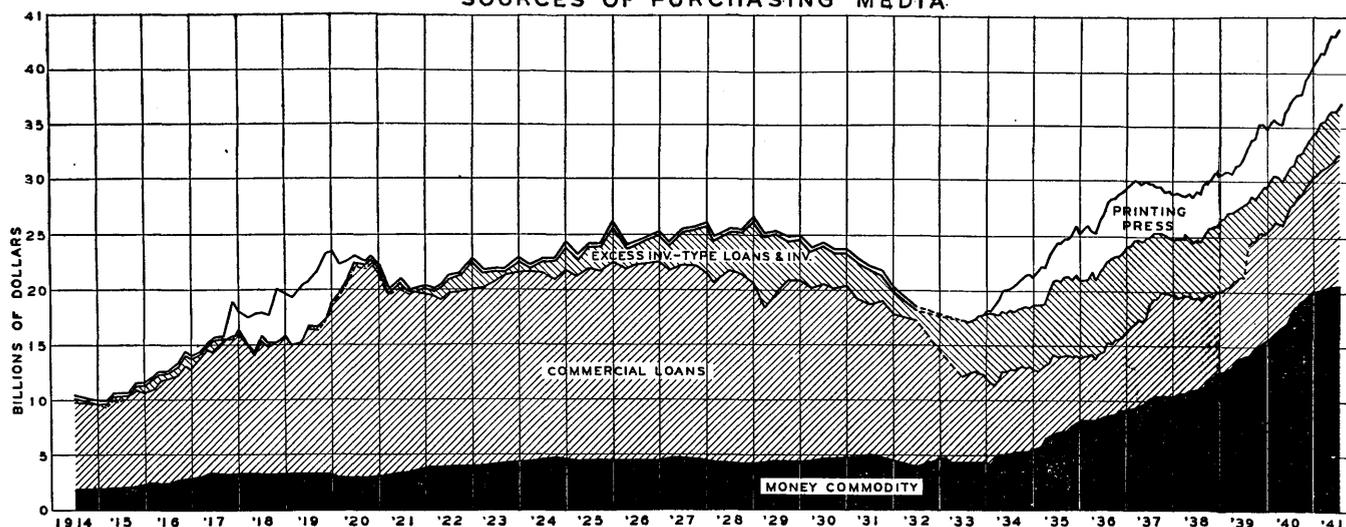
Cotton-mill activity decreased contraseasonally last week, and the adjusted index declined from 188.6 to 181.6. However, at last week's level, the index was 65 per cent higher than it was last year at this time.

	1929	1932	1937	1938	1940	1941
New York Times Index	107.8	80.3	131.5	120.7	116.9	181.6

Lumber production increased contraseasonally last week and the adjusted index advanced from 126.8 to 130.0.

	1929	1932	1937	1938	1940	1941
New York Times Index	130.7	35.8	92.4	69.3	115.7	130.0

## SOURCES OF PURCHASING MEDIA



### Demand

Last week's gain in the Federal Reserve index of department-store sales from the figure reported for the corresponding week of 1940 was 46 per cent. A gain of such magnitude bears the earmarks of a buyers' panic. The index for July 1941 was 113 per cent of the 1923-1935 monthly average. This record has not been exceeded during the period covered by the index, which extends back to January 1919, and was equaled only in the months of June and September 1929. The Federal Reserve index is adjusted for seasonal but not for long-term factors. Department-store prices are lower now than they were in 1929; consequently, the physical volume of goods sold during July exceeded the volume in the best months of 1929.

### Prices

The price trends of both futures and spot wholesale commodity prices were moderately reactionary last week. Moody's Spot Commodity Price Index declined from 213.6 on August 7 to 210.5 on August 14. The Dow-Jones Index of Commodity Futures closed at 79.31 on August 7 and at 78.38 on August 14.

## FINANCE

### Sources of Purchasing Media

As the accompanying chart shows, there was a substantial increase in the purchasing media available to the public during July. This was caused partly by Treasury spending of funds received during June in payment of the Federal income tax and to a greater degree by the expansion of bank credit.

Purchasing media from the money-commodity source increased about \$50,000,000 as it did in the preceding month. For the first time since the first half of 1938, the total of purchasing media from the money-commodity source has remained relatively stable over a period of six months. The large inflow of foreign gold that characterized the period from June 1938 to December 1940 probably will not recur during the next few years.

The increase in purchasing media derived from commercial loans last month made the most important contribution to the gain in the total. During the first seven months of the year, demand deposits resulting from the expansion of this type of credit were increased approximately \$500,000,000.

There was also an increase in purchasing media derived from the third source (an excess of investment-type assets representing tangible property with respect to savings available to the banking system). This was caused primarily by the banks acquiring obligations guaranteed by the Government, but the commercial banks also increased somewhat their holdings of "other" securities.

The commercial banks also bought direct Government obligations last month, but the increase in this class of securities was relatively small as compared with purchases of such obligations in some earlier months this year. The reason was that there were no important new borrowing operations by the Treasury during the month. There was a net loss in total purchasing media derived from the printing press last month because of a substantial increase in currency hoarding. The hoarding of currency of course removes it from the purchasing media available; therefore, it is subtracted from the fourth source in calculating the data on which the chart is based. During the first seven months of 1941, currency hoardings (Institute estimates, based on data published by the Board of Governors of the Federal Reserve System) have increased at an average rate of nearly \$100,000,000 per month.

It appears probable that there will be another substantial increase in total purchasing media available to the public during August, but the gain will be limited somewhat by the quarterly Social Security tax payments. Inasmuch as pay rolls are much greater this year than they were a year ago, such taxes are expected to exceed the \$139,000,000 collected in August 1940. However, these will be inadequate to prevent another large Treasury deficit that can be financed only partially by the sale of savings bonds. Receipts from sales of savings-bonds, together with the Social Security taxes, will probably yield the Treasury nearly \$500,000,000 during the month of August, but these receipts, together with other taxes, will be inadequate to prevent another budgetary deficit of substantial proportions because expenditures for national defense alone are now running at a rate of about \$1,000,000,000 per month.

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