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

COMING EFFECTS OF CURRENT EVENTS

The President's State-of-the-Union Message to Congress

The President's annual message to Congress was similar to that delivered a year ago in that the major part of the discussion dealt with the war and the remainder, primarily with postwar problems. In the first war message, the President set forth the Nation's objectives for the production of war materials and one year later was able to state that these had been substantially realized. Although Mr. Roosevelt reported on the outstanding war developments of the preceding year, considerations of military strategy prevented him from revealing their complete significance in relation to the master plan of the United Nations.

The intention of implanting doubt and fear in the ranks of enemy nations that could be discerned in the President's message in January 1942 was even more evident this year in his statement: "I cannot prophesy. I cannot tell you when or where the United Nations are going to strike next in Europe. But we are going to strike — and strike hard. I cannot tell you whether we are going to hit them in Norway, or through the Low Countries, or in France, or through Sardinia or Sicily, or through the Balkans, or through Poland — or at several points simultaneously. But I can tell you that no matter where and when we strike by land, we and the British and the Russians will hit them from the air heavily and relentlessly. Day in and day out we shall heap tons upon tons of explosives on their war factories and utilities and seaports."

The suggestion that the present Congress may help to shape the future peace of the world was evidently as far as Mr. Roosevelt felt that he could go in predicting the duration of the conflict.

The President touched only lightly on the changes that are being wrought as a consequence of the war in the Nation's domestic economy. His statement, "I wonder is there any person among us so simple as to believe that all this could have been done without creating some dislocations in our normal national life, some inconveniences, and even some hardships?" seems hardly to do justice to the serious problems that many of us are now facing. However, it is encouraging to observe that the Government intends to improve its methods of wartime administration. "Our experience will enable us during the coming year to improve the necessary mechanisms of wartime economic controls

and to simplify administrative procedures. But we do not intend to leave things so lax that loopholes will be left for cheaters, for chiselers, or for the manipulators of the black market."

The last quarter of the speech was primarily devoted to consideration of postwar problems. The treatment was less specific than had been anticipated by Washington observers before the message was delivered. The proposal for the establishment of the "four freedoms" throughout the world was again brought to the Nation's attention, but the President evidently considered that the time was not yet ripe for setting forth a definite program for implementing this objective: "We should never forget the things we are fighting for. But, at this critical period of the war, we should confine ourselves to the larger objectives and not get bogged down in argument over methods and details."

Some parts of the President's discussion of postwar objectives suggest reason for concern if given a narrow interpretation. For example, after stating that our young men and women "want assurance against the evils of all major economic hazards — assurance that will extend from the cradle to the grave," the President continued, "And this great government can and must provide this assurance." This suggests that the President believes that the Government can provide benefits for the people that the people have not earned by the exertion of their own efforts. It is to be hoped that such an interpretation of the President's statement does not express its intent.

It is obviously too early to say very much about peace terms; however, there will be little disagreement with the President's statement that our enemies "must be disarmed and kept disarmed." When he states, "They must abandon the philosophy, and the teaching of that philosophy, which has brought so much suffering to the world," it unfortunately seems that he is proposing a well-nigh impossible task.

The President obviously continues to support Mr. Hull's program for freeing world trade from tariff restrictions: "Economic safety for the America of the future is threatened unless a greater economic stability comes to the rest of the world. We cannot make America an island in either a military or an economic sense. Hitlerism, like any other form of crime or disease, can grow from the evil seeds of economics as well as military feudalism." Adherence to the program suggested in this statement might lead to the greatest volume of commodity interchange among nations that has ever been attained.

The following is the most hopeful paragraph in the speech: "In this war of survival we must keep before our minds not only the evil things we fight against but the good things we are fighting for. We fight to retain a great past — and we fight to gain a greater future." The evils that we are fighting against are exemplified by dictatorships arrogating to the State powers that rob the individuals of their freedom. These powers are universally abused and invariably lead to disaster. We have assumed that, in order to defeat Hitlerism, we have had to adopt many of the methods that Hitler uses. These are the antithesis of the conditions that have given us our great past and must be abandoned as soon as possible if we are in truth to gain a greater future.

The Budget Message

The notable feature of this year's budget message is of course the tremendous expansion in past and prospective Government spending. A year ago, we were already in the war, and the President estimated expenditures for the fiscal year ending June 30, 1943 at \$59,000,000,000. Now that half of that period has passed, the estimate has been raised to \$80,000,000,000, an increase of 35 per cent. The President now estimates that expenditures for the next fiscal year ending June 30, 1944 will be \$104,000,000,000. If this is actually increased 35 per cent, the outlay will be \$140,000,000,000. Furthermore, the President stated, "These estimates . . . assume only a small rise in prices." If the present upward price trend continues, this factor will tend to increase expenditures beyond the level indicated by the estimate.

The accompanying summary of the budget follows as nearly as possible the form that we have used each year in the Research Reports. Comparisons may be

SUMMARY OF THE NATIONAL BUDGET
(Billions of Dollars)

Accounts	Fiscal	Fiscal	Fiscal
	Year 1942	Year 1943 (Est.)	Year 1944 (Est.)
I. Receipts:			
1. Direct taxes on individuals	3.70	8.34	13.75
2. Direct taxes on corporations	5.02	10.07	14.92
3. Excise taxes	3.13	3.68	3.92
4. Employment taxes	1.19	1.47	1.98
5. Customs	0.39	0.25	0.20
6. Miscellaneous receipts	0.24	0.74	0.64
Total receipts	13.67	24.55	35.41
Less Social Security appropriations and post-war credits	0.87	1.57	2.33
Net receipts	12.80	22.98	33.08
II. Expenditures:			
1. War activities	26.01	74.00	97.00
2. Interest on public debt	1.26	1.85	3.00
3. Other activities:			
Legislative, judicial, executive	0.04	0.04	0.04
Civil departments and agencies	0.77	0.89	0.86
General Public Works program	0.62	0.58	0.35
Veterans pensions and benefits	0.55	0.61	0.88
Aids to agriculture	1.09	1.01	0.89
Aids to youth	0.25	0.02
Social-security program	0.50	0.52	0.50
Work relief	0.94	0.34	0.01
Refunds	0.09	0.10	0.13
Retirement funds	0.24	0.32	0.44
Miscellaneous	0.13	0.16	0.03
Total expenditures	32.49	80.44	104.13
III. Excess of expenditures	19.69	57.46	71.05

made by referring to the Bulletins issued early in January in preceding years.

Inasmuch as expenditures for war activities constitute by far the greater part of estimated outlays, it is impossible to make an intelligent analysis of the debit side of the Government ledger. The President stated, "This budget does not include the detailed estimates of war expenditures which would reveal information to our enemies." Therefore, the people must accept the judgment and integrity of the Administration to employ the funds efficiently for the prosecution of the war.

Ordinarily it would be possible to analyze the non-war expenditures to determine whether these were confined to a minimum during the emergency. A clear-cut separation of these items in the present budget cannot be made. The President stated, "Actually, the 'non-war' classification now has little, if any, meaning. Most of these expenditures are related to the war effort and many are directly occasioned by it. This 'nonwar' category includes, for instance, expenditures for war tax collections, for budgeting, disbursing, and auditing war expenditures, and for statistical and scientific services to war agencies." Nevertheless, the taxpayer may wonder why expenditures itemized as "aids to agriculture" are not reduced further below the \$1,000,000,000 aggregate, when farm income is at record high levels.

The item "interest on the public debt" does not now seem large in comparison with total expenditures, but it is growing and may assume serious proportions in later years. Present estimates are predicated on the assumption that interest rates are to remain low. Debt-service charges would be greatly augmented if the Government were forced to pay the interest rates that prevailed during the period following the first World War.

The budget estimates indicate that there will be an increase in receipts for the fiscal year 1944 of about \$11,000,000,000 from receipts in the preceding fiscal year. In the meantime, an increase of about \$24,000,000,000 in expenditures is expected. Consequently, the budgetary deficit of \$67,000,000,000 that is indicated for the fiscal year 1943 will be increased to \$71,000,000,000 in the next fiscal year. There is little hope that as substantial a proportion of the deficit for the next fiscal year can be financed from savings as that recorded in this fiscal year, and it is therefore apparent that the Treasury must resort to an increasing degree of inflationary methods for funding its monthly deficits.

It is significant to observe that the expected increase in receipts in the fiscal year 1944 over those in 1943 depends on larger direct taxes on individuals and corporations. It is apparent that the Administration expects to derive more revenue from income taxes. This can be achieved only if incomes increase (an unlikely supposition under present circumstances) or income-tax rates are raised. It is apparent that the Administration continues to avoid consideration of other methods of taxation, such as the general sales tax, even though both corporate and individual income-tax burdens are close to the practicable limit. In the case of corporations, it is doubtful whether higher rates would bring in an appreciably larger return; in the case of individuals, it is doubtful whether Congress will care to make upward revisions after hearing from constituents next March.

The President devoted a larger portion of his message to the discussion of the management of the internal economy in war time than he did to purely fiscal problems. He made a special point of the stabilization program intended to "assure each citizen the necessities of life at prices which he can pay. Otherwise, rising prices will lift many goods beyond his reach just as surely as if those goods did not exist. By a concerted effort to stabilize prices, rents, and wages we have succeeded in keeping the rise in the cost of living within narrow bounds. We shall continue these efforts, and we shall succeed."

It is evident that the President expects to continue this economic-management program during the post-war period: "The economic stabilization program, although born of war necessity, will greatly facilitate postwar reconstruction. A determined policy of war taxation and savings will aid in making post-war problems manageable by reducing the volume of additional borrowing and supporting the stabilization program."

Mr. Roosevelt makes it clear that managed economy, together with higher taxes, is here to stay. He said: "Because of the unavoidable magnitude of interest-bearing debt, taxes probably will never revert to their pre-war level. But substantial reduction from the war level will, nevertheless, be possible and will go hand in hand with a greater human security if the underlying fiscal structure is kept sound."

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced one point from 98½ (revised) in the preceding week to 99½ per cent of theoretical capacity last week. *The Iron Age* stated: "In an effort aimed at somehow obtaining more steel, war leaders are considering even tighter control over shipments and production. The 'mix' of products made by individual plants would be curtailed and delivery territories fenced according to plans being mulled over at Washington. It is claimed transportation facilities would benefit. Recently WPB steel division men have been visiting various steel companies to see what kind of production pattern the mill is capable of. The first week of the new year saw the steel industry in no particularly changed position either from an operating or a supply standpoint. New business was still expanding at several major production centers, but in the Chicago area the trend of new order volume was reported downward, in most cases reflecting adjustments to meet PRP and CMP situations. The alloy steel supply situation continues acute everywhere."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	82.5	24.5	80.0	30.0	96.0	99.5

(Latest 1943 weekly data; corresponding week earlier years)

Electric-power production increased from 3,779,-993,000 to 3,952,587,000 kilowatt-hours last week. The increase in power generated last week from that produced in the corresponding week of 1942 was 13.8 per cent. The largest gains were reported from the Southern States and the Pacific Coast region.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.74	1.60	2.26	2.12	3.47	3.95

The daily average of lumber production decreased last week, and the adjusted index declined from 121.5 to 101.9 per cent of the 1935-1939 monthly average.

Reports from the industry indicate that lumber stocks shrank to so low a level at the end of 1942 that they constituted less than one month's supply. The situation was still more unfavorable with respect to classes of lumber required for war purposes.

	1929	1932	1937	1938	1942	1943
New York Times Index	144.3	38.8	68.2	48.9	122.4	101.9

Demand

Stocks of goods in the hands of wholesale and retail merchants have been drastically reduced in the past few months. To the extent that some classes of goods desired by the public are no longer available, the situation is favorable to the Government's attempt to hold spending for consumer goods to a reduced level. On the other hand, scarcities tend to increase pressure on the price structure of the commodities that are still available. The public's active demand, implemented by its possession of an increased supply of purchasing media, is promoting the development of many methods of evading Government price controls and rationing restrictions.

Prices

The sensitive wholesale commodity price indexes moved irregularly last week. Spot prices remained about unchanged, although there was a decline in the futures market, influenced by the establishment of price restrictions on corn. Moody's Spot Commodity Price Index was 242.6 on January 7 and 242.8 on January 14. The Dow-Jones Index of Commodity Futures closed at 89.16 on January 7 and at 88.90 on January 14.

FINANCE

Money-Credit Trends

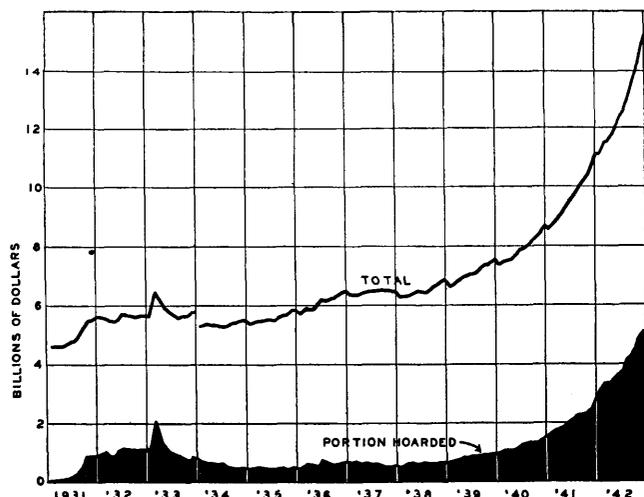
Purchasing media created from sources shown in the chart in last week's bulletin (*Weekly Bulletin*, January 11, 1943, page 8) are available to the public in the form of currency and checking-account deposits. The great growth in inflationary purchasing media that has occurred since the beginning of the war in Europe has had an important effect on prices but has not yet exerted as powerful an influence as might be expected in view of its magnitude. If this enlarged volume of purchasing media were actively bidding for goods in the commodity markets or were devoted to speculative purposes in the stock market or in the real-estate market, price advances of extreme violence would occur. We are presenting a series of charts in this issue that afford an indication of the extent to which the recently increased purchasing media have remained inactive.

Currency in Circulation

About 25 per cent of the Nation's purchasing media, outside of the United States Treasury, consist of circulating currency. Currency in circulation increased from about \$7,000,000,000 in August 1939 to approximately \$15,000,000,000 at the end of 1942.

The chart on page 12 presents the monthly record of total currency in circulation during the past twelve years. The shaded section in the chart indicates the amount of currency estimated as hoarded during each month of the period shown. The vertical distance between the top of the shaded portion and the line indicating the total currency in circulation affords a more accurate measure of circulating currency than the verti-

CURRENCY IN CIRCULATION AND PORTION HOARDED



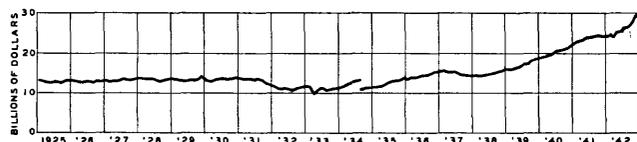
Gold coin omitted from reports beginning January 1934.

cal distance between the top line and the bottom of the chart, because the hoarded currency does not actually appear as demand in any of the markets. The chart indicates that, although there has been a considerable increase in currency outstanding during the past few years, more than half of the increase has been hoarded.

Demand Deposits

Although the largest number of exchanges are made by using currency as the purchasing medium, bank checks drawn on demand deposits are used for effecting by far the larger dollar volume of transactions. Furthermore, checking-account deposits constitute about three quarters of total available purchasing media. The following chart shows that demand deposits have increased substantially during the war period, although the proportional gain has not been so great as the proportional increase in currency in circulation.

DEMAND DEPOSITS (Reporting Member Banks)



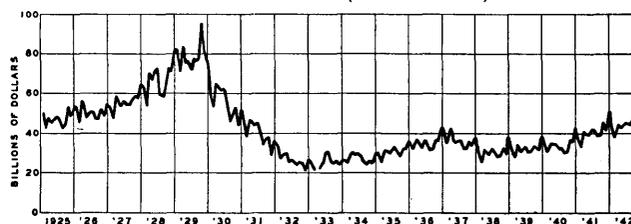
Beginning September 1934, United States Government deposits and items in process of collection excluded.

Approximately two-thirds of the dollar volume of all checking accounts is on deposit with the 101 member banks of the Federal Reserve System, which makes weekly reports of these items. The trend of deposits in these banks is usually typical of that for the entire banking system. Although the extent to which depositors have hoarded checking accounts is not susceptible to the same tests that can be applied to currency, it is possible to obtain an indication of demand-deposit hoarding by observing the trend of checking-account transactions.

Checking-Account Activity

The activity of demand deposits (checking accounts) is revealed by records of bank debits covering transactions of the larger banks of the country. The debits that are reported are charges against the checking accounts of individuals and companies. The reporting banks, the data for which are plotted on the accompanying chart, transact about two-thirds of the total checking-account business of the country.

BANK DEBITS (141 Centers)



Break in chart in March 1933 caused by bank holiday.

The trend of the bank-debit chart shows that transactions have increased during the past three years and have recently been substantially greater than they were at the height of the 1936-1937 inflationary period. Nevertheless, they failed to increase in proportion to the degree of expansion in demand deposits, and this behavior affords evidence of demand-deposit hoarding. It seems probable that the hoarding of demand deposits is similar in proportion to the hoarding of currency.

The hoarding of income above living expenses on an important scale is typical of periods of grave uncertainties in human affairs. The present wave of hoarding is undoubtedly attributable to the extraordinary obstacles to obtaining returns on private-enterprise capital. It is an unfortunate aspect of the situation that, if the most serious of these obstacles were removed, the existing volume of inflationary purchasing media would be "dehoarded," encouraging a speculative progression that would invite ultimate disaster.

SECURITIES

Bonds

Another week characterized by strength in the bond market brought the average level above that existing at any time during the past year and a half. The Dow-Jones average of 40 bonds advanced from 91.11 on January 7, to 91.67 on January 14.

Stocks

Although the volume of transactions on the New York Stock Exchange during the first half of January was smaller than it was during the December tax-selling period, it continued to be more substantial than the volume typical of the market last fall. Prices of the industrials, railroads, and utilities remained firm. There are indications that some of the war workers' surplus cash is beginning to be employed for speculative market transactions. If this movement becomes widespread, the Government will have another problem on its hands.

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