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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 Casablanca Meeting

Radio and newspaper commentators both here and in Great Britain obviously found it difficult to read into the official announcement of the Casablanca meeting the momentous significance that was expected from its spectacular heralding. No coordinated supreme command was proclaimed. The statements concerning the meetings of Generals Giraud and DeGaulle failed to furnish great hope for an early reconciliation of the major opposing elements among the French. There was only a vague intimation of an impending expansion in the sphere of military operations. Nevertheless, the meeting was not necessarily without real accomplishment. We do not know its major objectives nor can we understand all the limitations involved in the divergent political objectives of such an intricate military coalition as the United Nations represent.

Naturally the best result that could come from such a conference is the agreement on a plan for bringing the war to an early conclusion. The announcement of such a plan would be major news for people eager for miracles to blow down the walls of Jericho that Hitler has built about the Continent of Europe. Even if no miracles are to be wrought, it is probable that the United Nations will take new decisive action in the not too distant future to justify the tacit commitments implied to the people in the meeting of the military strategists. Their direction, as in the case of the North African invasion, may be revealed only after they have been launched.

The emphasis on the determination of the United Nations to demand unconditional surrender of the Axis in the report of the meeting may indicate its major objective: The forestalling of a premature negotiated peace. Since Hitler's reverses in Russia, he must realize that he is fighting alone. Although Japanese aggression is drawing off power that might be used against Germany, it was clear from the start that Japan was seizing an opportunity to gain her own ends. It is a case of two predatory nations fighting at the same time, rather than a military alliance. Hitler's European satellites are becoming a liability to him, sapping his strength either to support them or to keep them under subjection. Hitler is in the position of a margin speculator in a falling market. He still has resources and might save some of his stakes if a settlement could be made before they are wiped out. His bargaining position is not good, but he may feel that an attempt at settlement by making "generous" concessions might be entertained by some of his foes.

Here in the United States where the hardships of war are only beginning to be felt, it is difficult for us to understand the desperate state of mind of other peoples who have endured bitter hardships for year after year. If they are to carry on the fight to a decisive conclusion, it may be necessary for the United States to exert a more prominent leadership in the European area.

If the primary purpose of the Casablanca meeting was to support the determination of all anti-Nazi groups to carry on the conflict to an unambiguous conclusion, its task was not simple. It is poor strategy to suggest that there is any doubt of determination on the part of the United Nations to wage the war to complete victory, and it is therefore difficult to dramatize an act of leadership without acknowledging the need for it.

The complicated nature of political developments behind the lines in the countries participating in the first World War was as important a factor as censorship in concealing the influences that were shaping its end. The situation appears to be similar during the present conflict. Although little information is now available concerning the recent meeting in Africa, the event may nevertheless take an important position in history, marking the gathering together and weighing of accumulated forces to be made effective at the proper time. The results will be revealed during the coming spring and summer.

Distribution of Manpower

The current controversy between Congress and the military authorities over the size of the Army versus the productive labor force to supply the war and home needs will probably be decided in favor of the latter. The Administrations during the first World War and so far in the present instance have been granted all requests either for finances or regulatory powers that they have stated are required for the war's prosecution.

It is only natural that those responsible for the various elements having a part in the war tend to overemphasize the importance of their particular spheres. The military can see where they can utilize a larger combat force to shorten the duration of the war. They naturally do not give equal consideration to the problem of supply at home that the withdrawal of men creates. It is the duty of the Army and Navy high commands to fight, and they are in a position primarily to observe what is needed at the combat fronts, irrespective of where it is to be obtained. Therefore, they naturally call for both men and supplies regardless of

the fact that the point will ultimately be reached where more of both cannot be forthcoming.

The heads of departments of any business or Government organization instinctively strive to enlarge the personnel under their direction. In peacetime, the presidents of large corporations have the important responsibility of restricting the budgets of the various functions in their organizations to maintain a balance and a total consistent with efficient and conservative operations. The same situation applies to Government bureaus; only here the demand for profits is not involved, and only the negative and less insistent protests of taxpayers provide an incentive for restraint.

In the armed services, the commanders of each branch view their needs as paramount. The same psychology characterizes the smaller units, where each responsible officer endeavors to build up his command to maximum strength and superiority of personnel. The competition for skilled workers in war industries, the alleged hoarding of labor, and other similar current phenomena are the civilian counterpart of the rivalry existing in the armed services.

These normal human tendencies can be valuable if understood and subjected to reasonable restraint from above. On the other hand, they can be extremely disruptive if allowed to develop under conditions of loose control.

In respect to the allocation of manpower for war, only the central Government with its great organizations for gathering and analyzing data, is in a position to determine policies that will achieve a reasonably balanced program. The President and other responsible Government heads, to whom this information is available, must be as free as possible from any prejudices in its use. If decisions are suspected of being unduly influenced by the demands of other United Nations' leaders, for example, it is the duty of Congress to exercise its powers to correct the situation.

BUSINESS

The Trend of Commercial Failures

The number of commercial insolvencies decreased during December from the November total, but there was an increase in the liabilities involved. Nevertheless, both were well below the totals reported during December of the previous two years.

The number of commercial failures has been decreasing during recent years, and there has been an even more favorable downward trend in the liabilities involved. Total liabilities in 1941 were reduced 18 per cent from the 1940 total, and in 1942 there was an even greater decrease of 26 per cent from the aggregate recorded in 1941.

The fact that the experience in 1942, the first full year of our participation in the second World War, was so favorable with respect to commercial insolvencies is especially encouraging. In view of the many economic dislocations and the numerous Government restrictions resulting from the conflict, the record indicates a high degree of adaptability on the part of American enterprise to difficult circumstances.

The number and liabilities of commercial failures reported by Dun & Bradstreet, Inc. during each month of the past three years are shown in the accompanying table.

COMMERCIAL FAILURES, NUMBER AND LIABILITY

	Number of Failures			Liabilities of Failures (In Millions of Dollars)		
	1940	1941	1942	1940	1941	1942
January	1,237	1,124	962	15,279	11,888	9,916
February	1,042	1,129	916	13,472	13,483	9,631
March	1,197	1,211	1,048	11,681	13,444	12,011
April	1,291	1,149	938	16,247	13,827	9,282
May	1,239	1,119	955	13,068	10,065	9,839
June	1,114	970	804	13,734	9,449	9,906
July	1,175	908	764	16,213	13,422	8,598
August	1,128	954	698	12,997	11,134	6,786
September	976	735	556	11,397	9,393	5,473
October	1,111	809	673	12,715	7,333	7,181
November	1,024	842	585	16,572	9,197	5,245
December	1,086	898	506	13,309	13,469	6,950
Total	13,619	11,848	9,405	166,684	136,104	100,818

THE FUNDAMENTALS

Supply

The steel-production rate declined half a point to 99½ per cent of theoretical capacity last week. At last week's level, the rate was about 2½ per cent higher than it was in the corresponding week of 1942, and a greater gain in the production of actual tonnage was indicated because new producing equipment has come into service during the past year. The steel-scrap situation has recently shown improvement, so that there should be sufficient supplies available for the next few months. Current developments in the industry were summarized as follows by *The Iron Age*: "The concern of war leaders appears to be shifting from raw materials to components. Some vital construction programs were unable to proceed because they lacked small equipment. Closer attention to production of parts may be expected. Particularly in shipbuilding it is important that perfect coordination be achieved. Allied victories in North Africa were a blow to Axis steelmakers as annual output of high grade iron ore in French North Africa alone is over 3,000,000 tons. Zinc and lead, manganese, cobalt and phosphate rock are among other raw materials now available to the United Nations from North Africa."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	85.0	28.5	82.0	32.5	97.0	99.5

(Latest 1943 weekly data; corresponding week earlier years)

Electric-power production increased last week contrary to the normal seasonal trend. The gain in output from that in the corresponding week of 1942 increased to 15½ per cent from the gain of 14½ per cent recorded in the preceding week.

In a recent survey of the electric-power industry, representatives of the United States Department of Commerce found that the industry's ability to meet the enlarged wartime demands for power was primarily dependent on the following factors: "Net additions to capacity, amounting to roughly 2,700,000 kilowatts, or six per cent, were made during the year [1942], in spite of the fact that plans for capacity additions had to be curtailed somewhat because of metal shortages. This constituted the largest capacity expansion since 1925. Likewise some new transmission lines were brought into use, thus permitting a better distribution of available power, but this program also suffered curtailment under War Production Board limitations. In spite of the increased demands for electric power during 1942, peak loads were only five per cent above the previous year so that the addition of new capacity

raised utility reserves by 1,000,000 kilowatts or more than 10 per cent.

"The chief factor in the improvement in the power situation was the fact that multiple-shift operations in industrial plants produced a more even distribution of load requirements, thus permitting more effective utilization of available generating capacity. In addition, water-supply conditions in predominately hydroelectric areas were relatively more favorable."

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.73	1.59	2.22	2.10	3.44	3.97

Last week lumber operations continued the trend toward expansion followed throughout the month of January, and the seasonally adjusted index advanced from 115.7 in the preceding week to 123.2. Although the index was lower than it was in the corresponding week of 1942, the comparison is less unfavorable than it appears, because lumber operations were sustained at an unusually high level during the first two months last year. Official figures indicated that the lumber industry entered the new year with the lowest stocks on record. Nevertheless, it is believed that military and essential civilian requirements can be met during 1943 "if labor can be kept on the job and mills are supplied with maintenance and repair equipment. Any detraction of labor or equipment from established mills will jeopardize the delivery of lumber urgently needed for the war program."

	1929	1932	1937	1938	1942	1943
New York Times Index	137.1	37.1	59.1	56.9	135.7	123.2

Demand

Demand for consumer goods will probably continue to be insistent until the March income-tax-installment date draws near, but, because of merchandise shortages, the volume of retail sales will probably fall behind the high levels maintained during the corresponding period last year. Consumer durable goods items are gradually disappearing from merchants' stocks. Disappointed buyers are inclined to save a portion of their funds for the purchase of desired goods after the war, when they will again be available. Only a part of the trade that ordinarily represents durable goods purchases is being diverted to the purchase of nondurable merchandise.

Prices

For the third successive week, the sensitive wholesale commodity price indexes remained substantially unchanged. Moody's Spot Commodity Price Index was 244.0 on January 21 and 244.9 on January 27. The Dow-Jones Index of Commodity Futures closed at 89.12 on January 21 and at 89.36 on January 27.

There was another increase in the cost of living during the final month of 1942. This was primarily attributable to higher food costs. The cost of the housing and clothing items remained unchanged, and there were only minor changes in the fuel and light and sundries items. The following table presents the composite index and the indexes representing the five subdivisions prepared by the National Industrial Conference Board during periods of especial significance at this time. The first column of figures shows the indexes for the period just before the first World War started in 1914, and the second column shows the indexes in June 1920, when the combined index reached the highest level recorded during the inflationary progression that accompanied the

earlier conflict. The third column indicates the level of living costs just before the outbreak of the present war, and the next two columns, which are the data for the most recent months available, indicate the extent to which the present wartime inflation has forced living costs above the prewar level.

	July 1914	June 1920	Aug. 1939	Nov. 1942	Dec. 1942
All Items Combined	61.3	122.6	84.0	100.3	101.0
Food	66.1	147.2	75.3	106.5	108.3
Housing	57.7	91.2	86.3	90.8	90.8
Clothing	58.8	149.9	71.9	88.6	88.6
Fuel and Light	63.3	98.6	84.0	90.5	90.6
Sundries	59.0	107.3	96.9	106.2	106.4

Although the increase in the cost of living during the first three years of the present war has been moderate in comparison with the advance that occurred during the first World War period, it must be remembered that a considerable part of the rise in the former period occurred after the Armistice. The trends of the separate components of the combined index on the present occasion have been similar to those that characterized the earlier wartime inflation. The cost of rentals has remained relatively stable, compared with the average in 1939, but substantial increases may be in prospect after the war is over. The housing index continued to advance after the highest point for the combined index had been reached in 1920, and the high point for the movement for that item was not reached until July 1924. During war time, it is impossible to meet the program of residential building commensurate with population growth, and therefore the housing shortage becomes acute after the war ends, and the demobilization of the armed forces results in a rapid increase in the demand for residential units.

The food and clothing items are the most responsive to changes in economic conditions, and they are the first to start downward after the crest of an inflationary progression has been reached. The sundries and the fuel and light items are relatively stable, but in the past both have tended to retain a considerable proportion of the gains achieved during such inflationary progressions as the one that accompanied the first World War.

FINANCE

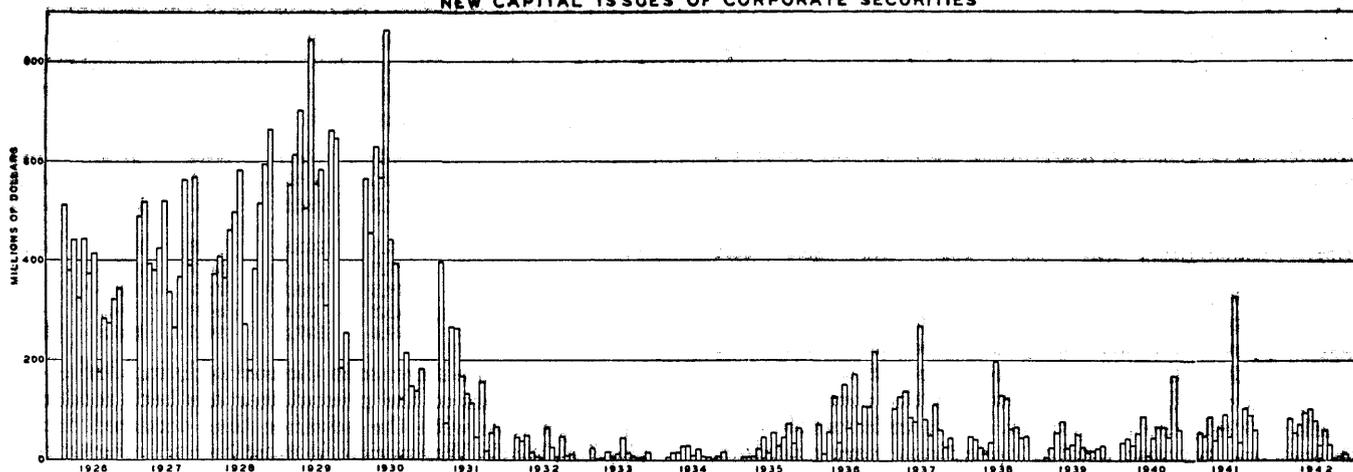
New Capital Issues

The chart at the top of page 20 shows the volume of new corporate financing in the United States by months for the years 1926-1942 and facilitates comparisons between the flow of new capital into industry during recent months with that during the earlier periods shown. The data for investment-trust issues are excluded to avoid duplication.

The volume of new capital issues was fairly well sustained during the first five months of 1942 but tended to contract later in the year and, during the final quarter, was reduced to the nominal proportions that prevailed during 1933 and 1934. The chart shows that private corporate financing during the recovery period between the great depression and the second World War failed in every year to approach the high levels typical of the New Era period of the late 1920's.

Of the \$616,000,000 in par value of new private issues last year borrowings by the railroads represented about five per cent; by the public utilities, approxi-

NEW CAPITAL ISSUES OF CORPORATE SECURITIES



mately 25 per cent; and by industrial concerns, the remaining 70 per cent. The aggregate new capital issues cannot be taken as a measure of the investment of corporations in plant expansion (other than that financed out of surplus earnings). Although corporations ordinarily issue new debt to meet the expenses of new plants and machinery installations, such borrowing can be justified from the corporations' financial standpoint only if the new facilities can reasonably be expected to retire the debt and provide a profit after the transaction. Inasmuch as it is impossible to foresee the duration of the war and therefore to estimate what demand there will be for war materials, the Government has undertaken to finance a large proportion of the producing facilities necessary for the manufacture of war materials. The Government has therefore advanced the funds to make possible huge industrial developments for the production of aircraft, ammunition, ships, and chemicals. Although some of these may never be adapted to peacetime uses, the demonstrated ingenuity of American industrial management will probably succeed in salvaging a substantial portion of the total. Although the Nation may continue to invest in selected industrial developments to increase the production of war materials, the largest part of the program was completed last year.

New corporate financing in December and for the full years during the past seventeen years is shown in the following summary:

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	December (In Millions of Dollars)	Twelve Months	Year	December (In Millions of Dollars)	Twelve Months
1926	343	4,236	1935	65	402
1927	568	5,217	1936	217	1,202
1928	663	5,294	1937	47	1,225
1929	253	6,407	1938	60	869
1930	181	4,807	1939	31	381
1931	67	1,759	1940	62	733
1932	10	324	1941	80	1,062
1933	16	161	1942	11	616
1934	16	159			

Source: *Commercial and Financial Chronicle*.

SECURITIES

Bonds

Although the bonds of railroads in the process of reorganization were stronger last week, the general list

remained about unchanged for the first seven-day period since a vigorous upward trend started late in December. The Dow-Jones average of forty bonds was 92.13 on January 21 and 92.37 on January 28.

Stocks

Both the industrial and utility stock-price averages moved upward last week, although the railroad average failed to participate in this trend. The volume of transactions was somewhat larger than it was in the preceding week.

RECOMMENDED BOOKS

"*Science in Progress*," Third Series, Edited by George A. Baitsell, Yale University Press, New Haven. (\$3.00.)

This is the third biennial volume of scientific material based on nine lectures presented before the Society of the Sigma Xi during 1941 and 1942 by some of the Nation's foremost men of science. The tenth discussion on the subject of synthetic rubber will not be given until later in 1943 but has been included in this volume because of its timeliness.

The topics covered are selected on the basis of their importance to the scientific world and are widely divergent, presenting an opportunity to the layman to study what scientists themselves believe to be the most significant contributions to their particular fields of research during the past two years.

"*Your Corporation Tax*," (1943 Edition) by J. K. Lasser, Simon & Schuster, New York. (\$1.00.)

As in the case of *Your Income Tax* (for individual returns) by the same author, this guidebook uses the tax return as a convenient index. We can recommend this manual even to the experienced accountants who are qualified to unravel the intricacies of Federal corporation-tax returns.

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