AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

WEEKLY BULLETIN

August 23 1943

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The President's Anti-Strike Move

President Roosevelt's directive, issued to the National War Labor Board last week, was given a prominence in the press that tended to exaggerate its importance. Readers who were content with glancing over the headlines and with brief news reports on the President's letter may have gained the impression that all striking war workers would be immediately subject to draft if they were within the specified age limits. They might also think that the Government might seize the dues of any unions that failed to comply with War Labor Board orders.

A careful study of the letter of transmittal and the executive order makes it clear that drastic action by the War Labor Board, such as is described, can be taken only after an establishment has been taken over by the Government under the War Labor Disputes Act. "As a part of the compliance program the appropriate Government agency at the time of taking over shall ask the Board to modify its order so as to withhold from the union (by escrow in the case of checked-off funds) the benefits, privileges or rights accruing to it as such under the agreement or proposed agreement with the employer until the union demonstrates its willingness and capacity to abide by the obligations thereof."

The President went on to state that the number of cases in which compliance of both management and labor could not be obtained were extremely few. "I am informed that during the past eighteen months the Board disposed of over a thousand disputes. Only seven had to be referred to me because of persistent non-compliance." It is thus apparent that unless there is a radical change in the attitude of management and labor toward conciliation of disputes few people will be affected by the order.

Official Views on Inflation

The public is considerably better informed about inflation at the present time than it was before the war brought the subject into prominence. Government officials have disseminated information about inflation by means of bulletins, press releases, radio broadcasts, and speeches. Nevertheless, some confusion still persists even in high places.

In the current issue of the *Federal Reserve Bulletin* (August 1943), there is a discussion of the Third War Loan Drive, in which the dangers inherent in the enlarged excess incomes are discussed. The following is the summary and conclusion of this discussion:

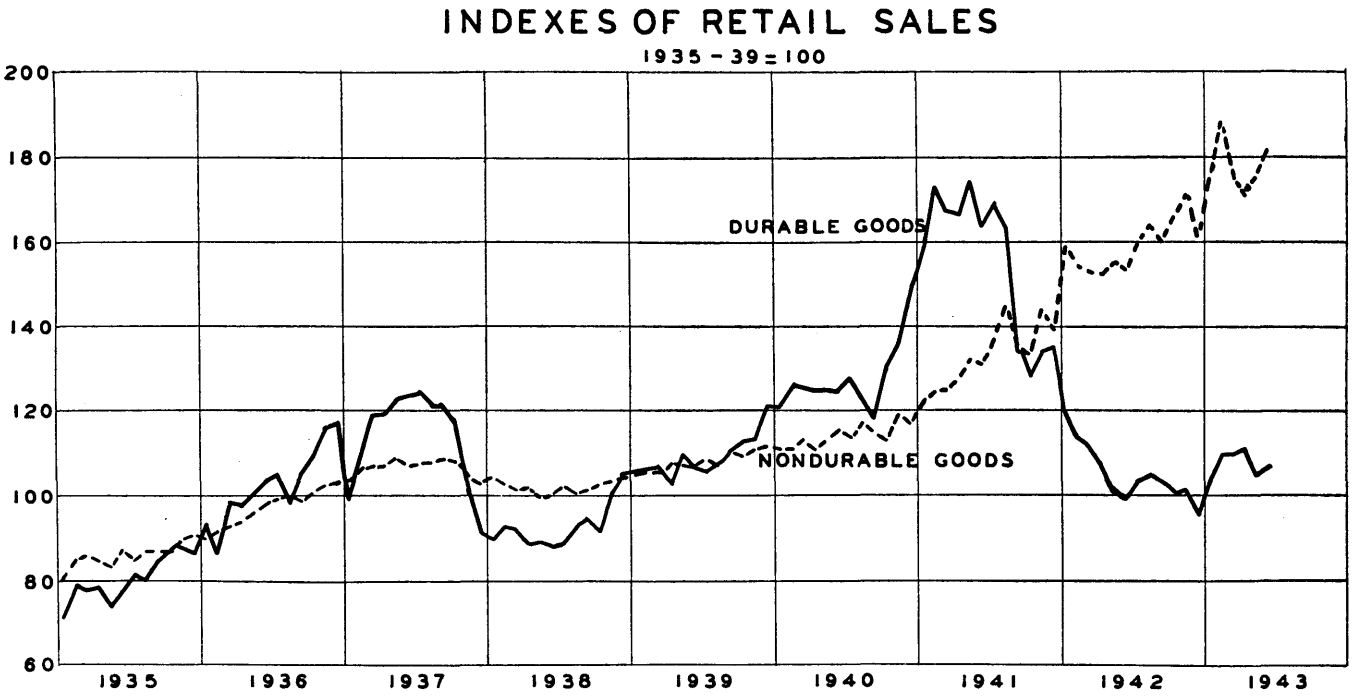
"The fundamental task of war finance is to transfer this excess income from private to public use; to draw back into the Treasury out of the income created by our ever-expanding national production an amount equal to what the Government is spending. The best way to do this is by increasing taxes and the sale of War Bonds. To the extent that these two methods of rechannelling excess funds are used, pressure for an inflationary advance in prices of civilian goods can be avoided."

Those responsible for preparing and editing the text material published regularly in the *Federal Reserve Bulletin* customarily exercise care as to the exactness of any statement made. It is therefore rather surprising to find the unqualified statement that an inflationary advance in prices of civilian goods can be *avoided.* Even if it is conceivable that current excess incomes can be absorbed through increased taxes and War Bond sales, the possibility of the Government's recapturing the inflationary purchasing media that have been created earlier in the war is remote indeed.

Another official publication, *The Survey of Current Business* (July 1943), published a discussion entitled "Wartime Savings and Postwar Inflation," in which it was pointed out that the absorption of current incomes through the purchase of Government bonds was a less satisfactory procedure than their absorption by taxation. The following extract from this discussion appears to impair some of force of the statement made in the *Federal Reserve Bulletin:*

"It is true, of course, that *at the time* the bonds are purchased by individuals and corporations the danger of an inflation is thereby diminished. Yet, *in the long run* the resulting increase in individual and corporate holdings of Government bonds is likely to affect the way in which these economic units treat their cash balances. That is, the sale of bonds to nonbanking economic units, instead of increasing the total *amount* of their cash balances, is likely to affect their decisions regarding the size of their cash balances relative to outlays.

"There is, then, a very real difference between financing war expenditures by taxing and financing war expenditures by borrowing — even if in both cases the funds are taken out of current income. When, on the one hand, individuals and corporations use their current income to pay taxes, they are left with nothing but tax



receipts, the dollar volume of which *is not* likely to affect their future spendings-savings decisions. When, on the other hand, individuals and corporations use their current income to buy Government bonds, they are left with highly liquid assets the dollar volume of which *is* likely to affect their future spendings-savings decisions.

"It is because of the possible effects on the income-administration decisions of individuals, as well as of corporations, of increased holdings of liquid assets that the sale of Government bonds to nonbanking units differs so markedly from taxation as a means of financing war expenditures."

BUSINESS

Indexes of Retail Sales

The chart of durable goods and nondurable goods retail sales, as expressed by the indexes compiled by the United States Bureau of Foreign and Domestic Commerce, was reproduced in the August 2, 1943 Research Report bulletin and is shown here merely to indicate changes for June, the indexes for which have just been published. The nondurable goods index advanced in June following an upturn in May. The sales volume of these stores has apparently not recovered to the record high level reached last February (after adjustment for seasonal factors). However, the June 1943 index of 181.4 per cent of the 1935–1939 monthly average was slightly higher than the average for the first half of the year.

There was a small increase in the durable goods index during June, but this failed to make up for the more substantial decrease in May. Although the nondurable goods index is far above the level existing before the outbreak of the war in Europe in 1939, the durable goods index has remained at about that level for the past twelve months. There are no separate price indexes available to use in adjusting the separate indexes of dollar sales to show the physical volume; however, it is certain that the physical volume of durable goods sold in the retail markets is much smaller in comparison with the volume during the base period 1935–1939 than is indicated by the dollar-volume index, because prices have risen substantially during the past four years.

The Trend of Commercial Failures

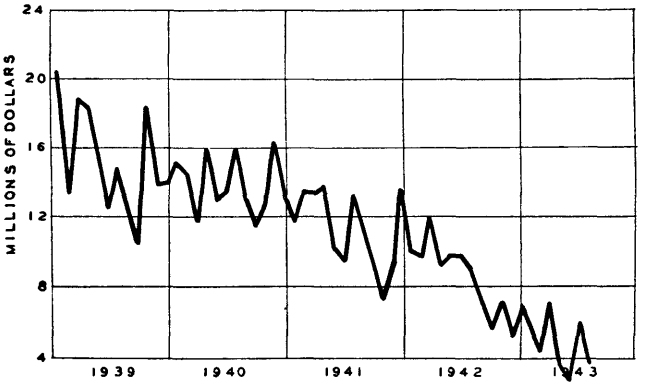
Reports of commercial failures were more favorable last month than they were in the preceding month. The number of failures decreased to the lowest level ever recorded by the statistical series compiled by Dun & Bradstreet that was started as of January 1939. Total liabilities involved in commercial insolvencies of $3,595,000 were substantially below the monthly average for the first half of the year. The number and liabilities of commercial failures during each month of the past two years and during the first seven months of 1943 are shown in the accompanying table.

COMMERCIAL FAILURES, NUMBER AND LIABILITY

	Number of Failures			*Liabilities of Failures (000 Omitted)*		
	1941	*1942*	*1943*	*1941*	*1942*	*1943*
January	1,124	962	458	$11,888	$9,916	$5,515
February	1,129	916	422	13,483	9,631	4,163
March	1,211	1,048	410	13,444	12,011	7,282
April	1,149	938	362	13,827	9,282	3,523
May	1,119	955	281	10,065	9,839	2,550
June	970	804	265	9,449	9,906	6,076
July	908	764	203	13,422	8,598	3,595
August	954	698		11,134	6,786	
September	735	556		9,393	5,473	
October	809	673		7,333	7,181	
November	842	585		9,197	5,245	
December	898	506		13,469	6,960	
	11,848	9,405	880	$136,104	$100,818	$9,678

The following chart shows the liabilities of commercial failures during the war period. Although the downward trend in the seriousness of losses caused by commercial failures has persisted throughout the past four years, further progress must be limited because losses have now been cut to relatively negligible proportions.

LIABILITIES OF COMMERCIAL FAILURES



THE FUNDAMENTALS

Supply

Last week, the steel-ingot production rate was estimated to be 98½ per cent of theoretical capacity. The same rate prevailed during the preceding two weeks. The current situation in the steel industry was summarized by *The Iron Age* as follows: "Steel backlogs are quite heavy and practically all mills are booked up for the rest of this year on all products except a few. One notable factor in steel bookings during the past three weeks is the care of steel consumers to comply with the 60-day inventory restriction set up by WPB. This has resulted in a substantial number of orders being set back, and such action could easily be misinterpreted as a cancellation. However, in such cases another order is usually placed for identical items slated for delivery at a later date. While the steel industrial front is apparently going along at a much better clip than at any time during the past year and a half there are still a few danger signals ahead which may prevent the full utilization of steel ingot and finishing productive capacity. The manpower situation is no better than it was a week or a month ago and in coming months is expected to be the major problem in the steel industry."

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Per Cent of Capacity	90.0	13.5	83.0	42.0	99.5	98.5

(Latest 1943 weekly data; corresponding week earlier years)

Electric-power output of 4,287,827,000 kilowatt-hours last week exceeded the previous record high. Output for the country was 17.3 per cent greater than production during the corresponding week of 1942. This was an improvement over the gain of 16.6 per cent reported in the preceding week.

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Billion Kilowatt-Hours	1.76	1.44	2.30	2.13	3.65	4.29

Lumber production increased last week, and the seasonally adjusted index advanced from 111.3 to 113.5 per cent of the 1935–1939 monthly average.

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
New York Times Index	134.5	35.2	82.9	75.3	118.0	113.5

Demand

The dollar volume of department-store sales last week was four per cent greater than it was in the corresponding week of 1942, according to reports made to the Federal Reserve System. Income payments are running about 25 per cent larger this year than they were a year ago; however, a gain of similar size in the dollar volume of department-store sales cannot be expected, because taxes are taking a heavier toll of incomes than they were twelve months ago.

Prices

The sensitive wholesale commodity price indexes remained substantially unchanged last week. Moody's Spot Commodity Price Index was 245.0 on August 12 and 225.2 on August 19. The Dow-Jones Index of Commodity Futures closed at 92.14 on August 12 and at 92.55 on August 19.

FINANCE

New Capital Issues

The volume of new capital issues during July was only about two-thirds of the June total and was the smallest for any month since last February. July is normally a quiet month in the new-capital market, but seasonal factors were probably not responsible for the scantiness of offerings of new securities.

Virtually all of the new capital sought recently by American corporations represented borrowings for the construction or improvement of facilities to be used in the war effort. Of the $19,000,000 par value of new capital issues last month, all but $870,000, which was borrowed by the public utilities, was borrowed by industrial concerns. New corporate financing in July and in the first seven months of each year during the past eighteen years is shown in the accompanying summary.

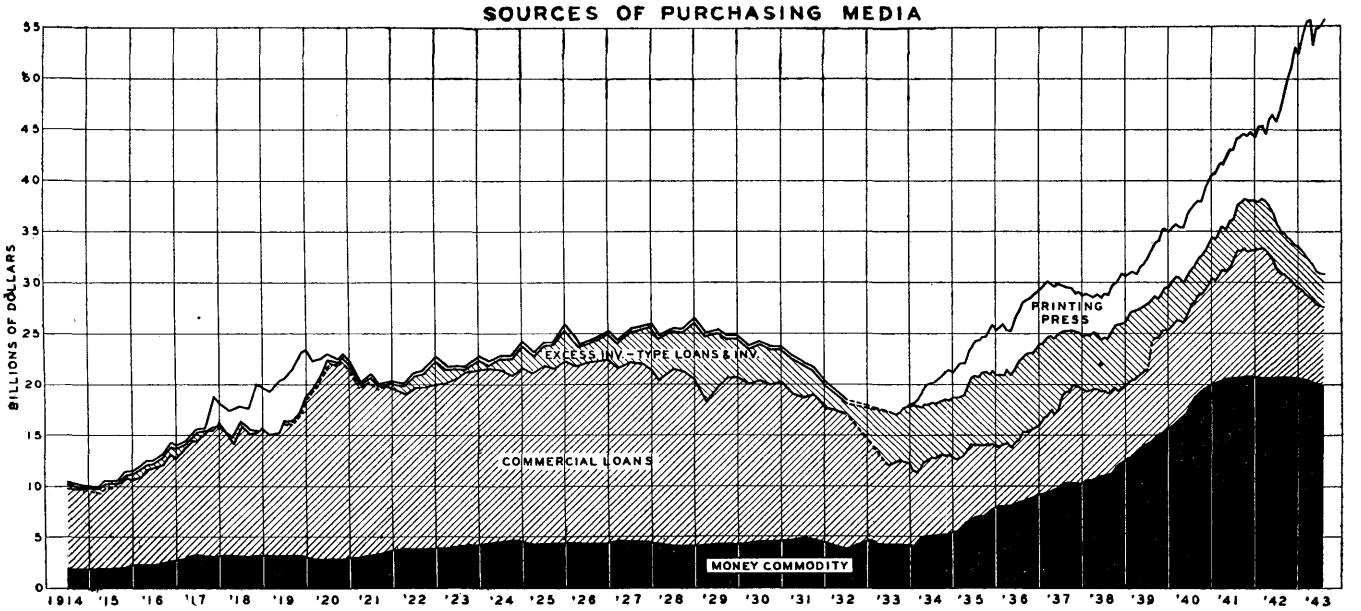
NEW CORPORATE FINANCING IN THE UNITED STATES

Year	*July* (*In Millions of Dollars*)	*First Seven Months*	*Year*	*July* (*In Millions of Dollars*)	*First Seven Months*
1926	415	2,886	1935	55	156
1927	338	3,098	1936	63	521
1928	272	2,957	1937	82	911
1929	583	4,354	1938	130	492
1930	392	3,913	1939	50	267
1931	115	1,422	1940	50	320
1932	63	223	1941	47	427
1933	52	112	1942	28	511
1934	20	119	1943	19	170

Source: *Commercial and Financial Chronicle.*

Sources of Purchasing Media

There was a more substantial increase in purchasing media available to the public last month than there was in June and the total approached the high level reached last spring. During 1939 and 1940, additions to the Nation's monetary gold stock from imports of the metal were primarily responsible for the great increase in purchasing media during those years. There have subsequently been no increases in the money commodity. Nevertheless, the sharp upward trend in the line representing purchasing media from all sources was maintained throughout 1941 and 1942, primarily as a result of the purchase of new Government securities by the commercial banks. This influence persisted during 1943, but heavy Government taxation and vast Treasury operations have created an irregular movement in the top line of the chart, which represents total available purchasing media.



A small decrease in purchasing media from the money-commodity source was recorded last month. The total decrease in monetary gold stocks during the month was about $60,000,000. This was a relatively insignificant change in a total monetary gold stock that has been maintained at a level exceeding $20,000,000,000 during the past two years.

Purchasing media derived from commercial loans decreased only slightly during July. This type of credit was used to finance the increase in manufacturers' inventories to enable them to maintain efficient operations with a large volume of output. Wholesale and retail merchants also increased their stocks of goods whenever they were able to do so. However, the Government has conducted an unremitting campaign to effect reductions in manufacturers' and merchants' inventories. This has been generally successful, and the volume of bank loans for the purpose of carrying inventories have consequently decreased.

The volume of purchasing media from the third source (credit resulting from the banks' acquirements of investment-type assets that represent tangible property in excess of savings available to the banking system) remained about unchanged last week. The commercial banks maintained their holdings of securities other than Government obligations without significant change.

The volume of direct Government obligations held by the banks increased about $2,000,000,000 during the month of July. The obligations were purchased by means of new inflationary bank credit. Furthermore, purchasing media derived from the printing press were augmented by the distribution of funds previously accumulated to the Treasury's accounts with the Federal Reserve Banks and other depositaries. In spite of taxes of $2,000,000,000 received by the Government in July, the Treasury was forced to finance a deficit of more than $7,000,000,000 by new borrowing and by depleting cash resources held in its general fund. The Treasury increased its outstanding short-term issues (including Treasury tax-anticipation notes) by more than $4,000,000,000 during July.

Beginning in 1936, when short-term (within five years) securities comprised nearly one-half of the total national debt, the Treasury instituted a policy of reducing short-term debt and attempted to distribute securities with some degree of uniformity over a period of two or three decades. However, this policy could not be maintained after we entered the war actively. The following summary indicates the proportion of issues of short-term maturities to the aggregate interest-paying Government debt.

SHORT-TERM MATURITIES OF THE FEDERAL DEBT

January 31		*Per Cent of Total*
1936	$14,197,000,000	48
1937	13,375,000,000	40
1938	13,334,000,000	39
1939	11,538,000,000	33
1940	9,242,000,000	25
1941	8,120,000,000	20
1942	10,389,000,000	17
1943	34,775,000,000	32
1943 (June 30)	45,088,000,000	33

SECURITIES

Bonds

There was no observable change in the character of the bond market last week. The Dow-Jones average of forty bonds was 96.27 on August 12 and 96.23 on August 19.

Stocks

The small gains recorded by the stock market during the first two weeks of August were extended last week. However, there was no increase in the volume of transactions, which remained at about the year's lowest level.

American Institute for Economic Research is a non-political, non-commercial organization engaged in impartial economic research.