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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

An analysis of the President's annual message to Congress reveals three major divisions containing matters that we shall discuss in subsequent paragraphs. The first section of the address deals with our foreign policy and the war. The second section is concerned with our internal economy in relation to the war. The third section is a presentation of Mr. Roosevelt's social objectives, presumably relating to the postwar period.

Foreign Policy and the War

In the President's discussion of foreign policy he answered charges that he had made secret commitments beyond his Constitutional powers. He said: "Of course, we made some commitments. We most certainly committed ourselves to very large and very specific military plans which require the use of all Allied forces to bring about the defeat of our enemies at the earliest possible time." In regard to postwar international commitments, he denied that any were made but stated that the leaders of the United Nations were in agreement as to objectives for the future. These "can be summed up in one word: Security.

"And that means not only physical security which provides safety from attacks by aggressors. It means also economic security, social security, moral security — in a family of nations."

The most reassuring portion of Mr. Roosevelt's statement on foreign policy expressed his appreciation of the value of international trade with prosperous nations. "It has been shown time and again that if the standard of living of any country goes up, so does its purchasing power — and that such a rise encourages a better standard of living in neighboring countries with whom it trades." Of course, a generally free interchange of goods among nations is implied, because countries that are set apart from each other by high tariff walls do not benefit from commodity exchanges.

Mr. Roosevelt's reference to the distance still separating our troops from Berlin and Tokio gave little encouragement to the hope that either of our major enemies would soon be overcome. Nevertheless, his reminder that President Wilson in August 1918 had called for "force in the utmost" only three months before the conflict ended is clearly an implied admission that this war may be concluded suddenly.

Internal Economy and the War

The controversial character of some of the five recommendations made by the President to adapt the Nation's internal economy to war requirements probably accounts for the prominence given these by the press. None of them are new, but his advocacy of a national service act probably came as a surprise to many who felt that our production record was so favorable as to obviate the need for such a measure.

The President's first recommendation asked for "a realistic tax law." This request was couched in such general terms that it represented primarily a rejection of the revenue measure now before the Senate. However, his reference to "unreasonable profits, both individual and corporate" suggests that he advocates enactment of the Treasury's tax proposals. It is doubtful whether this first recommendation will be favorably received by Congress.

The second recommendation, for continuation of the law for the renegotiation of war contracts, will probably be heeded by Congress, although the existing law may be amended with the objective of eliminating some of the inequalities that have been revealed in the administration of renegotiations. The prevention of exorbitant profits on Government contracts is unquestionably an essential element in the sound management of the war program. The manner in which it is accomplished is worthy of approval if it is just and does not encourage inefficiency.

The third recommendation brings up a subject of recent debate in Congress. This recommendation was expressed in the following words: "A cost of food law — which will enable the Government (a) to place a reasonable floor under the prices the farmer may expect for his production, and (b) to place a ceiling on the prices a consumer will have to pay for the food he buys. This should apply to necessities only; and will require public funds to carry out. It will cost in appropriations about one per cent of the present annual cost of the war." A notable feature of this statement is the absence of the word "subsidy," which the President apparently feels has acquired an unfavorable connotation. Our views regarding Government subsidies were expressed in the May 17, 1943 Research Report bulletin, page 77, and in the November 22, 1943 bulletin, page 185.

The least controversial of any of the five recommendations is the fourth on the list. This provides for the extension of the "stabilization statute" of October 1942, which will probably be granted by Congress.

The fifth point in the President's program advo-

cated "a national service law — which, for the duration of the war, will prevent strikes, and, with certain appropriate exceptions, will make available for war production or for other essential services every able-bodied adult in the nation."

Statistical reports that are now available, together with public statements made by responsible Government officials, indicate that the country's manpower is now sufficient to meet the needs of the war program and to provide an increasing volume of goods for civilian consumption. Under these circumstances, a national service act appears to be an unnecessary encroachment on the people's civil liberties. If the objective is to prevent strikes, a more direct approach would seem to be preferable.

Mr. Roosevelt's advocacy of a national service act was so conditioned that he will probably be in a position to repudiate it if such action later becomes expedient. He said: "These five measures together form a just and equitable whole. I would not recommend a national service law unless the other laws were passed to keep down the cost of living, to share equitably the burdens of taxation, to hold the stabilization line, and to prevent undue profits." The chances that all four of the contingent recommendations will be accepted by Congress are not favorable. Furthermore, the opposition of organized labor to a national service act, which was immediately expressed by its leaders, will be a powerful deterrent to Congressional enthusiasm for such a measure, especially in an election year.

New Bill of Rights

The final section of the President's message was essentially a reiteration of the New Deal's philosophy. This was expressed in terms made familiar during Mr. Roosevelt's first eight years in office. However, the direction in which this social program was leading was more frankly brought out than it formerly was.

The President said: "This Republic had its beginning, and grew to its present strength, under the protection of certain inalienable political rights — among them the right of free speech, free press, free worship, trial by jury, freedom from unreasonable searches and seizures. They were our rights to life and liberty.

"As our nation has grown in size and stature, however — as our industrial economy expanded — these political rights proved inadequate to assure us equality in the pursuit of happiness." Apparently, Mr. Roosevelt senses an inconsistency between the Bill of Rights in the Constitution and the New Deal's social-reform program. The fact that he spoke of the Bill of Rights in the past tense suggests that this is destined for the discard if the New Deal party is retained in power.

The President's reference to the Bill of Rights as a thing of the past recalls memories of the Supreme Court packing struggle of 1937. The result of that political battle suggests that an attempt to repeal the Bill of Rights would meet with strong opposition, no matter how pleasing a substitute were proposed to "modernize" our Constitutional form of Government.

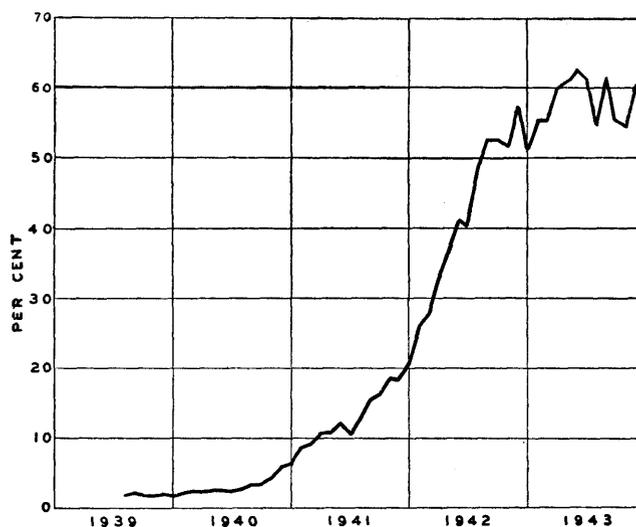
Proportion of the National Economy Devoted to War Activities

There was a decrease in the per cent of expenditures for war activities to total income payments during the final month of 1943, and the lowest level was recorded

since December 1942. This appeared to be greater-than-seasonal in extent. (Income payments are especially large in the month of December because of bonuses and year-end dividend distributions.) Wide fluctuations have characterized the trend of war spending during the past year. Therefore, the decline in the series last month can be viewed as significant only if it persists for several months.

Expenditures for war activities, expressed as a per cent of the Nation's total income payments (which includes payments for war activities in the total), are plotted in a monthly series on the accompanying chart. The period covered begins in July 1939, just before the start of the war in Europe. The latest point shown represents December 1943. Only preliminary estimates of income payments are available for the last month, although expenditures for war activities are known.

**PER CENT OF TOTAL INCOME
FOR WAR ACTIVITIES**



Seasonal factors caused a substantial increase in income payments during December. This increase in combination with a decrease of about \$800,000,000 in expenditures for war activities last month accounted for the decline in the series shown in the chart. The accompanying statistical summary shows the expenditures for war activities in each month during 1943, as reported by the United States Treasury. Estimates of total income payments made by the United States Department of Commerce are also shown.

1943	Expenditures for War Activities (In Billions of Dollars)	Income Payments
January	5,947	10,748
February	5,770	10,443
March	6,744	11,222
April	6,974	11,215
May	7,091	11,138
June	7,469	12,162
July	6,432	11,748
August	7,232	11,658
September	6,952	12,545
October	6,989	12,741
November	7,541	12,420
December	6,718	13,200 (est.)

BUSINESS

Reconversion Difficulties

A study made by the United States Department of Commerce shows that the number of man-hours required to fabricate a ton of steel into guns, tanks, ships, machine tools, and other finished products for war purposes is eighty-seven per cent higher than the effort, measured in the same way, that is required to fabricate a ton of steel for normal civilian requirements. This ratio may not be so high in respect to other materials, although there is no evidence to indicate that it is not. In any event, steel products comprise a large part of the durable goods required for our civilian economy.

The inference derived from the study is that the proportion of man-hours that will be required by the durable goods industries after the war will be substantially decreased in relation to the total man-hours of all manufacturing industries. This of course has a direct bearing on the postwar employment situation. Adjustments to meet peacetime needs will be extensive. However, the high degree of flexibility possessed by American industry was demonstrated by the success of the conversion program and should not fail us during the reverse process.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced two points from 97½ per cent in the preceding week to 99½ per cent of theoretical capacity last week. *The Iron Age* reported that the steel industry is making exceptional efforts to provide specifications needed for invasion equipment, and that its efforts are meeting with a high degree of success. This authority also stated: "Imports of scrap from battlefields have mounted to large proportions at Atlantic ports. It is becoming a question in the minds of some authorities whether the movement should be continued on such a scale, in view of the numerous accidents that have been caused by unexploded ammunition and 'booby' traps. Prisoners of war are at work at New York helping sort the scrap."

	1929	1932	1937	1938	1943	1944
Per Cent of Capacity	82.5	24.5	80.0	30.0	99.5	99.5

(Latest 1944 weekly data; corresponding week earlier years.)

Electric-power production increased from 4,337,387,000 kilowatt-hours in the preceding week to 4,567,959,000 last week. Electric power generated last week exceeded output in the corresponding week of 1943 by 15½ per cent.

	1929	1932	1937	1938	1943	1944
Billion Kilowatt-Hours	1.74	1.60	2.26	2.12	3.95	4.57

The daily average of lumber production decreased substantially last week, and the adjusted index declined from 121.0 to 109.2 per cent of the 1935-1939 monthly average. A survey of the lumber industry made by officials of the United States Department of Commerce shows that equipment shortages as well as lack of manpower are contributing to the unsatisfactory supply situation in the lumber industry. The prospects for improvement in the situation this year are apparently unfavorable. "Elimination of the factors adversely affecting production is not anticipated. As long as

they exist, it is logical that they will continue to exert a downward influence. A reduction in production during 1944 of about ten per cent seems a fair assumption."

	1929	1932	1937	1938	1943	1944
New York Times Index	144.3	38.8	68.2	48.9	101.9	109.2

Demand

Inventories on the shelves of wholesale and retail merchants were drastically reduced during the holiday season. This factor probably accounts for the decrease in volume of retail sales during the first part of January, compared with the volume a year ago. The situation is favorable to the Government's attempt to hold spending for consumer goods to a reduced level, inasmuch as some classes of goods desired by the public no longer are available. 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, has promoted the development of methods of evading Government price controls and rationing restrictions. The dollar volume of department-store sales last week was three per cent smaller than it was in the corresponding week of 1943.

Prices

The sensitive wholesale commodity price indexes remained substantially unchanged last week. Moody's Spot Commodity Price Index was 247.3 on January 6 and 247.6 on January 12. The Dow-Jones Index of Commodity Futures closed at 96.76 on January 6 and at 96.81 on January 12.

The cost of living index compiled by the National Industrial Conference Board remained unchanged in November 1943 at the October level. There was a fractional decline in the index of food prices. The housing index remained unchanged, and the indexes for the other three items, clothing, fuel and light, and sundries advanced fractionally. The combined index and separate items for July 1914, just before the First World War started, for June 1920, the month in which the peak in commodity prices was recorded during the First World War period, for August 1939, the eve of the outbreak of the Second World War, and for October and November 1943 are shown in the following table:

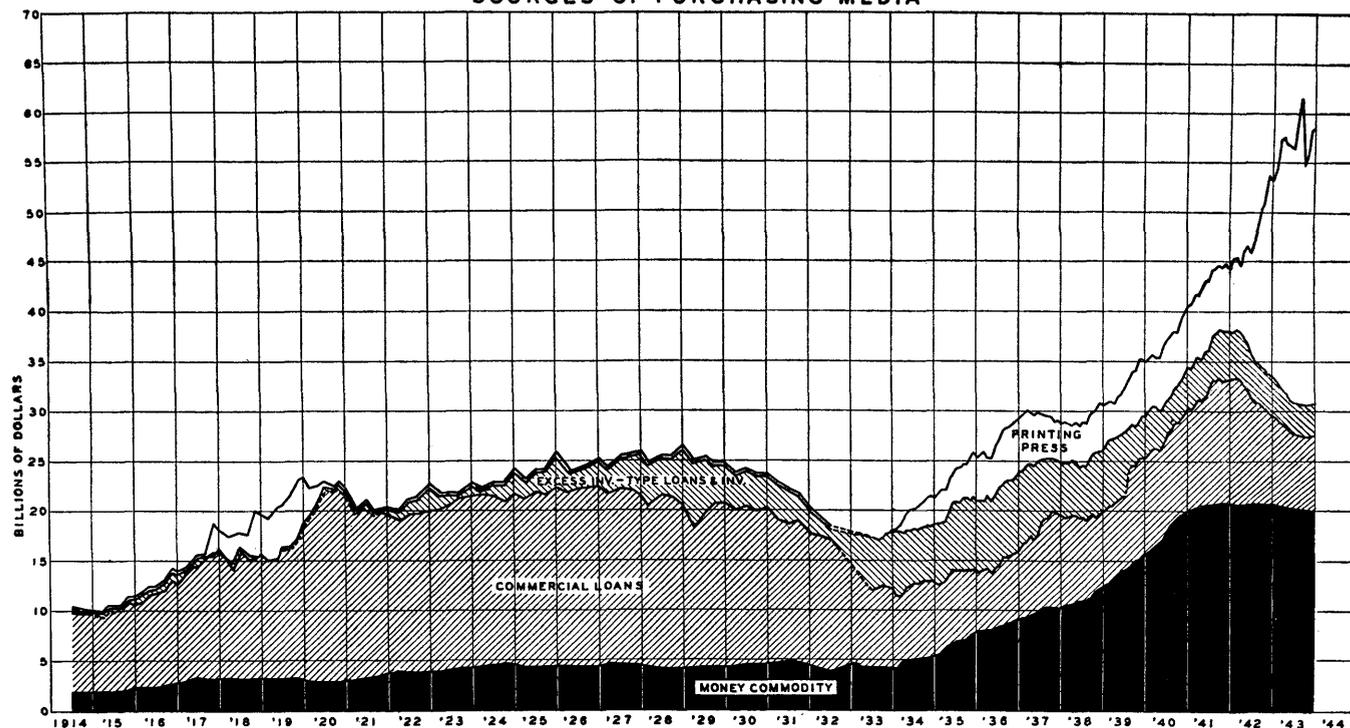
	July 1914	June 1920	Aug. 1939	Oct. 1943	Nov. 1943
All Items Combined	61.3	192.0	84.0	103.7	103.7
Food	66.1	147.2	75.3	112.6	112.1
Housing	57.7	91.2	86.2	90.8	90.8
Clothing	58.8	149.9	81.9	90.6	90.9
Fuel and Light	63.3	98.6	84.0	92.7	93.1
Sundries	59.0	107.3	96.9	108.6	109.1

FINANCE

Sources of Purchasing Media

During December 1943, purchasing media that were available to the public increased only slightly following a more substantial increase during the preceding month. At the end of the year, the total was more than \$3,000,000,000 smaller than it was at the highest point reached during the war period last August. Purchasing media include all forms of money and credit that are usually accepted by sellers in exchange for their goods or by creditors who finally complete the transaction and do

SOURCES OF PURCHASING MEDIA



not leave either the buyer or seller directly or contingently obligated in any way. Under our present money-credit system, purchasing media available to the public consist of currency in circulation plus demand deposits (checking accounts). All purchasing media in use have come from one of the sources shown in the accompanying chart.

The first and basic source of purchasing media is the money commodity, represented by the solid black section of the chart. Although gold is no longer permitted by the Government to circulate in the form of coins, gold certificates representing the Government's monetary gold stocks have been delivered to the Federal Reserve Banks and form the basis for most of the Federal Reserve notes that now constitute more than eighty per cent of total currency in circulation.

The chart shows that the great increase in the Nation's gold stock that began with devaluation of the dollar in January 1934 was accelerated when the war was brewing in Europe in 1938 and in the first three quarters of 1939. The movement continued uninterrupted in the first year of the war and was halted only after the Lend-Lease arrangements were made with Great Britain in 1941. Thereafter, the Nation's monetary gold stocks and consequently the purchasing media derived from them remained virtually unchanged for a period of nearly two years. During the second year of our war participation, gold was employed for war purposes, and at the end of 1943, our gold stocks (exclusive of gold in the stabilization fund) were reduced slightly below \$20,000,000,000 from an aggregate of \$20,800,000,000 maintained throughout 1942.

The second source of purchasing media indicated in the chart is derived from commercial loans created in connection with the extension of credit by the commercial banks to finance the production and movement of agricultural and industrial products by private industry.

The purchasing media created in this fashion are not inflationary when the credit is used to bring goods to the civilian markets. There was a substantial contraction in commercial loans after the United States entered the war, but this trend was reversed during recent months, and purchasing media from this source have increased moderately.

The third source of purchasing media involves the extension of bank credit on goods, real estate, or securities that have tangible value but that are not offered on the market during the period of the loan. Since we entered the war, the banks have decreased their holdings of non-Government securities and also their credit extended on corporate security collateral, and purchasing media from the third source have steadily decreased.

The fourth source of purchasing media arises from the Government's power to create promises to pay that are accepted at face value primarily because of the implied promise to tax. A considerable proportion of the Government's wartime deficit financing has involved the creating of new "printing press" purchasing media, shown as the fourth source on the chart. An encouraging set-back was made to the process of inflationary war financing last September when the Treasury succeeded in borrowing nearly \$20,000,000,000 from nonbanking sources. If the current War Bond drive is successful, the Treasury will not have to resort to the commercial banks for its deficit financing for several months. In such an event, the volume of purchasing media available to the public will be limited to its existing level.

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