

AMERICAN INSTITUTE for ECONOMIC RESEARCH

W E E K L Y
B U L L E T I N

January 24

1944

54 Dunster Street, Harvard Square - Cambridge, Mass.

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Third War Budget Message

The third budget message transmitted to Congress by the President since we entered the war found the Nation prepared for astronomical figures, and it was therefore received without surprise or dismay. Inasmuch as 92 and 90 per cent, respectively, of total Government expenditures for the current and immediately preceding fiscal years are for war expenditures, it is impossible to make an informative analysis of the budget. When the country is at war, funds necessary for conducting operations successfully are granted by Congress, and considerations of military secrecy prevent an accounting that might ordinarily be demanded.

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 made by referring to the bulletins issued in January in preceding years.

SUMMARY OF THE NATIONAL BUDGET (Billions of Dollars)

Accounts	Fiscal Year 1943	Fiscal Year 1944	Fiscal Year 1945
I. Receipts:			
1. Direct taxes on individuals	6.95	19.42	18.11
2. Direct taxes on corporations	9.91	14.14	15.41
3. Excise taxes	3.78	4.28	4.25
4. Employment taxes	1.51	1.88	3.18
5. Customs	0.32	0.42	0.44
6. Miscellaneous receipts	0.91	2.44	2.04
Total receipts	23.38	42.58	43.43
Less Social Security appropriations and postwar credits	1.10	1.39	2.66
Net receipts	22.28	41.19	40.77
II. Expenditures:			
1. War activities	72.11	88.50	88.20
2. Interest on public debt	1.81	2.65	3.75
3. Other activities:			
Legislative, judicial, executive	0.04	0.04	0.05
Civil departments and agencies	0.81	1.09	1.08
General Public Works program	0.52	0.46	0.34
Veterans pensions and benefits	0.60	0.87	1.25
Aids to agriculture	1.04	0.75	0.47
Aids to youth	0.02
Social Security program	0.50	0.48	0.48
Work relief	0.32	0.04
Refunds	0.08	0.41	1.80
Retirement funds	0.32	0.47	0.47
Miscellaneous	0.01	0.19	0.06
Total expenditures	78.18	95.95	97.95
III. Excess of expenditures	55.90	54.76	57.18

Although our analysis of budgetary items that was customarily made before we entered the war is not practicable this year, there are significant aspects of the message that deserve comment. The President's budget message this year was longer than usual and reasserted recommendations made in his message on the State of the Union. His demand for subsidy payments was renewed, and he again made an insistent plea for additional wartime taxes. He discussed numerous considerations arising from the war. These included, in the foreign field, relief and rehabilitation in liberated areas and, in the domestic field, manpower demobilization and reemployment. There is more than a suggestion that the Lend-Lease program will not be terminated at the end of the war. A vast public works program is apparently being planned for this country in the postwar period. A careful study of the message leaves the reader with the distinct impression that there is no end in sight for huge Federal outlays.

The Public Debt

The President said: "By June 30, 1944, the public debt is expected to reach \$198,000,000,000 and a year later, \$258,000,000,000." He also suggested the possibility that even higher totals might be reached. His statement in this connection is especially significant: "The primary achievement of our debt policy has been the maintenance of low and stable rates of interest. Average interest rates payable on the public debt now are less than two per cent. Interest received from all new issues is fully taxable."

Two inferences can be drawn from these statements. The first is that annual interest payments of \$5,000,000,000 will make heavy tax collections a permanent burden on the country during the postwar period. The second is that the Government must exert its powers to the utmost to maintain low interest rates during the years ahead.

BUSINESS

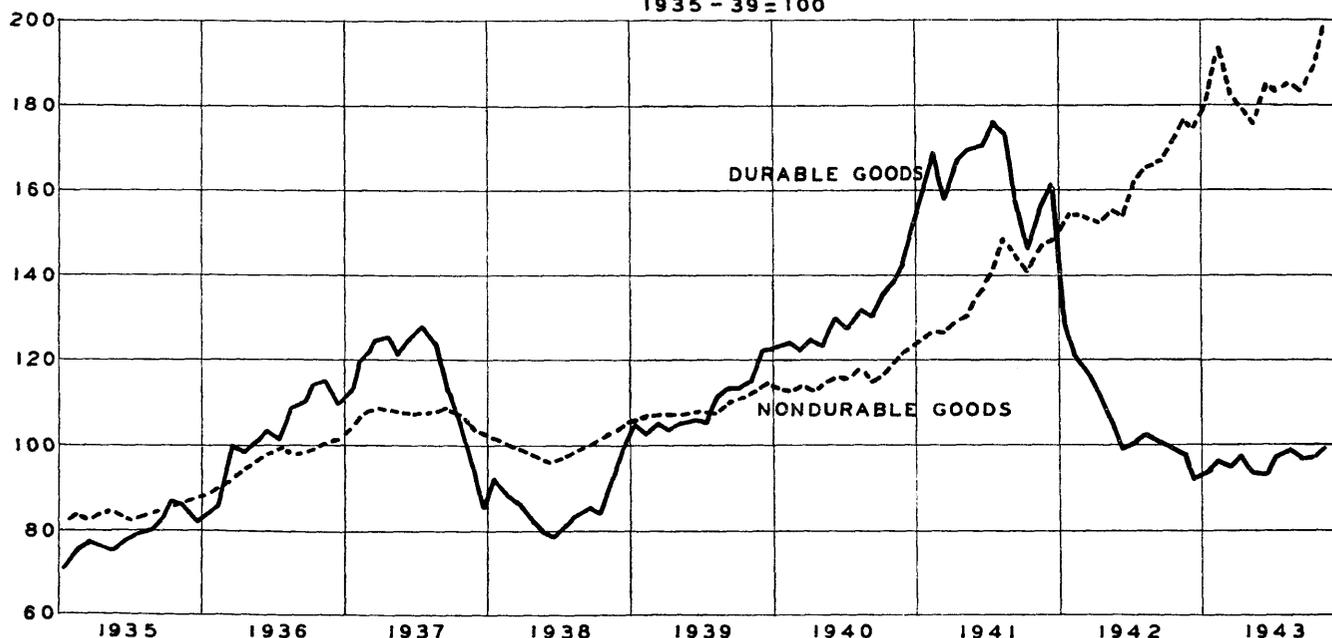
Indexes of Retail Sales

The United States Department of Commerce recently revised its statistical series of sales of retail stores. This revision was discussed in the December 13, 1943 bulletin, page 198, and components of the indexes were described. The chart on page 14 presents the indexes through November 1943, the latest period for which data are available.

An especially large volume of sales of pleasure auto-

INDEXES OF RETAIL SALES

1935 - 39 = 100



mobiles was the major factor in the great advance in the durable goods index in 1939-1941, but there was also increased business in household equipment and in other durable consumer goods items. Public demand for this type of merchandise was apparently temporarily satisfied even before supplies were limited, as evidenced by the decline in the index before wartime restrictions became effective. After we had been in the war for six months, the dollar volume of durable goods sales became stabilized at about one hundred per cent of the base period, 1935-1939. Although the index fell below that level during the winter months of 1942-1943, it recovered to the June 1942 level in November 1943. Inasmuch as prices have advanced substantially since the war began in 1939, the physical volume of goods recently distributed is smaller in proportion to sales during earlier years shown in the chart than is indicated. (There are no satisfactory price indexes now available for accurately adjusting the separate indexes for the price changes.) Our estimates, based on incomplete price data, indicate that the physical volume of durable goods being distributed through retail outlets during the second half of 1943 was approximately the same as that distributed during the first half of 1935.

The dollar volume of nondurable goods stores continued to increase long after the down turn in the sale of durable goods, and a new high for the movement was made as recently as last November. Preliminary sales figures suggest that there will be a decline in this index early this year.

The Trend of Commercial Failures

The number of business insolvencies and the liabilities involved decreased during December from the November figures, and, with the exception of the reports for September 1943, were reduced to the lowest level recorded by these statistical series.

The number of commercial failures has been decreasing during recent years, and there has also been a favorable downward trend in the liabilities involved.

Total liabilities in 1941 were reduced 18 per cent from the 1940 total; in 1942, there was a decrease of 26 per cent from the aggregate recorded in 1941; and in 1943, there was an even greater decrease, when liabilities of failures were less than half as serious as they were in the preceding year.

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 was especially encouraging. In view of the many economic dislocations and the numerous Government restrictions resulting from the conflict, the record indicated a high degree of adaptability on the part of American enterprise to difficult circumstances. The great improvement in the record during the second year when this country was at war is probably attributable to the outpouring of funds from Government sources. An increase in insolvencies is to be expected after the war ends and the present rate of Government spending is curtailed.

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, NUMBERS AND LIABILITY

	<i>Number of Failures</i>			<i>Liabilities of Failures</i> (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	13,327	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	227	11,134	6,786	2,905
September	735	556	124	9,393	5,473	1,488
October	809	673	169	7,333	7,181	3,735
November	842	585	155	9,197	5,245	2,402
December	898	506	145	13,469	6,960	2,055
	11,848	9,405	3,221	\$136,104	\$100,818	\$45,339

Newspaper Advertising

During the first fifteen months after we entered the war, the volume of newspaper advertising decreased from the level existing in 1940 and 1941. However, the volume began to increase in the spring of 1943, and last summer substantial gains were recorded when comparisons of linage were made between the total for current months and for those a year earlier.

The latest figures that are now available are for November 1943, and these suggest that another decreasing trend is developing. The year-to-year gains from 1942 levels were reduced from 21.3 per cent in September to 14.7 per cent in October and to 7.1 per cent in November. Newspaper advertising linage in the dailies of fifty-two cities during November 1942 and 1943, with the percentage changes, is shown in the accompanying summary.

Newspaper Advertising Linage	November 1942 (Millions of Dollars)	November 1943	Per Cent Increase November 1943 from November 1942
Classified	23.0	27.1	17.8
Display			
Automotive	2.8	3.9	39.3
Financial	1.5	1.3	13.3*
General	21.8	24.4	11.9
Retail	70.0	70.9	1.3
Total	119.1	127.6	7.1

* Decrease

The volume of newspaper advertising during most of 1943 was sustained primarily by extensive linages of classified and general display advertising. Most of this type of advertising was placed by employers seeking to obtain the services of war workers. The more recent falling off in this type of advertising affords evidence that employers are no longer experiencing serious difficulties in maintaining their labor force.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced fractionally from 98 (revised) to 98½ per cent of theoretical capacity last week. *The Iron Age* stated: "Although restrictions have been lifted from dealer purchases of idle and excess steel, enabling warehouses to buy the material more freely and permitting new dealers to handle such stocks, the action is not as beneficial to steel users as last week's announcements indicated. The continuation of restrictions on construction is a blow to many producers and sellers of construction steel, whose production facilities are in low gear. Mills are idling on the West Coast and concrete bar makers over the nation are so low on orders that price shading has appeared. Meanwhile, as the time for the widely heralded invasion approaches, equipment is being rushed to completion with production schedules telescoped and additional workers assigned to the manufacturing tasks."

	1929	1932	1937	1938	1943	1944
Per Cent of Capacity	83.5	26.0	81.0	31.0	100.0	98.5

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

Although there was an increase in the consumption of electric power last week from the preceding week's total, it was smaller than the one that occurred a year ago, and the year-to-year gain was reduced from 15.6 per cent in the preceding week to 14.8 per cent last week. If the peak in war production has passed, this development will soon be reflected in the records of the electric-power industry. The volume of electric power generated during 1943 followed a course that was consistently upward during the first three quarters of the year. Thereafter, there were further gains, but these were more moderate. Unless power consumption is reduced as rapidly as it was increased last year, year-to-year gains will continue to be recorded.

	1929	1932	1937	1938	1943	1944
Billion Kilowatt-Hours	1.71	1.60	2.26	2.11	3.95	4.54

Last week, lumber production increased contra-seasonally, and the adjusted index advanced from 109.2 in the preceding week to 116.8 per cent of the 1935-1939 monthly average. Last week's reports indicate that the lumber industry may succeed in holding its own, compared with production in 1943. However, last year's production was barely adequate to supply Government needs, and lumberyard stocks were reduced 26 per cent, according to data compiled by the United States Department of Commerce. Existing stocks are now believed to be at a minimum level, so that they no longer afford a source of relief for the unsatisfactory supply situation.

	1929	1932	1937	1938	1943	1944
New York Times Index	145.2	39.3	69.9	53.1	115.7	116.8

Demand

The intermittent waves of "scare buying" that characterized trade conditions earlier in the war have not been in evidence during the past few months. With the exception of a few types of goods, commodity scarcities are not serious at the present time. Furthermore, the public appears to have reached a better adjustment to wartime conditions than existed earlier in the period of the conflict. Nevertheless, as long as incomes remain as high as they are at present, fresh buying waves will develop as soon as rumors are spread of probable future scarcities. The dollar volume of department-store sales last week was four per cent greater than it was in the corresponding period a year ago.

Prices

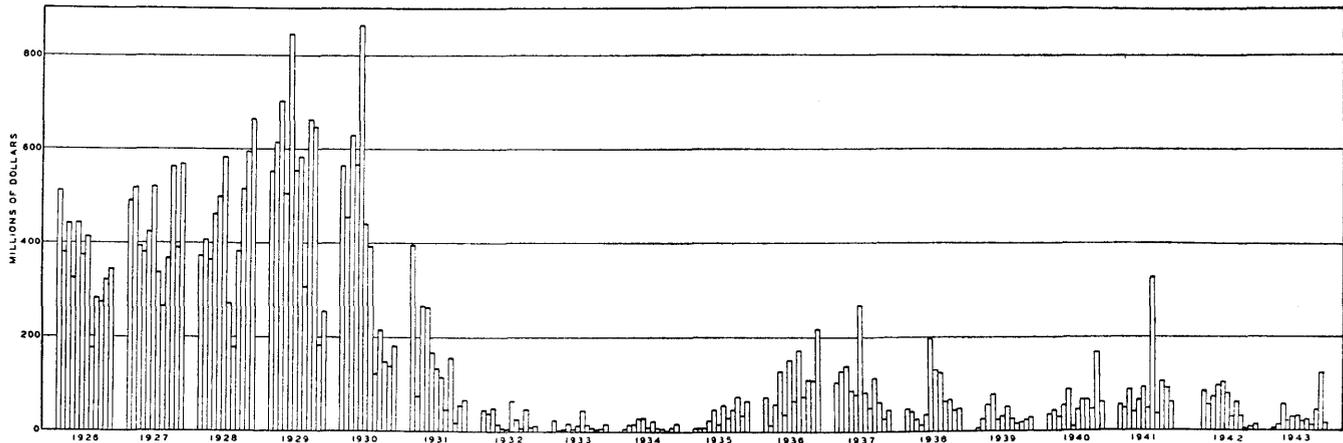
The sensitive wholesale commodity price indexes moved irregularly last week. Spot commodity prices remained unchanged, but reactionary tendencies developed in the futures market. Moody's Spot Commodity Price Index was 247.4 on January 13 and 247.3 on January 20. The Dow-Jones Index of Commodity Futures closed at 96.41 on January 13 and at 96.38 on January 20.

FINANCE

New Capital Issues

The chart at the top of page 16 shows the volume of new corporate financing in the United States by months

NEW CAPITAL ISSUES OF CORPORATE SECURITIES



for the years 1926-1943 and facilitates comparison between the flow of new capital into industry during the war period with that during the earlier period 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 six months of our war participation but tended to contract after the middle of 1942; and, with the exception of two or three months, in 1943, the volume 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 level typical of the New Era period of the 1920's.

Of the \$378,000,000 in par value total of new private issues last year, borrowings by the railroads represented 16 per cent; by the public utilities, about five per cent; and by industrial concerns, the remaining 79 per cent.

In general, new capital issues of corporate securities are purchased with the Nation's savings by individuals, banks, insurance companies, and other institutional investors, and the funds are invested in new plants and other capital facilities. Both opportunity for business expansion and confidence on the part of investors are ordinarily required for an active market in new capital issues. Furthermore, these are essential to the long-term growth of the Nation's economic mechanism.

The volume of new capital issues of private corporations affords a rough measure of the rate of expansion of the Nation's aggregate manufacturing facilities. This measure cannot be applied to the situation existing during the past two years, because the Government has financed industrial developments in values comparable to those undertaken by private enterprises during the period immediately preceding the depression years of the 1930's. The extent to which these developments will be adapted to peacetime uses is yet to be ascertained, but presumably many of the manufacturing facilities created by the Government for war purposes can be made suitable for peacetime pursuits.

As long as the war in Europe lasts, there will probably be no appreciable revival in the private capital market. However, a substantial revival will probably be experienced during the postwar period, even if it is not

immediately initiated when peace comes. New corporate financing in December and for the full year during the past eighteen years is shown in the following summary:

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	December (In Millions of Dollars)	Twelve Months (In Millions of Dollars)	Year	December (In Millions of Dollars)	Twelve Months (In Millions of Dollars)
1926	343	4,286	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	735
1932	10	324	1941	80	1,062
1933	16	161	1942	15	622
1934	16	159	1943	14	378

Source: *Commercial and Financial Chronicle*.

SECURITIES

Bonds

The bond market last week followed the upward trend that has proceeded almost continuously from the end of November 1943. The advance has been led by the more speculative type of railroad issues. The Dow-Jones average of forty bonds was 97.75 on January 13 and 98.23 on January 20. The current level of this average is the highest that it has been since 1937.

Stocks

Railroad issues continued to advance last week following an upward trend established at the end of last November. The industrial and utility averages began to advance at the same time as did the railroad average, but in the case of these averages progress was halted early in January and subsequent changes have been negligible.

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