AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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WEEKLY BULLETIN

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Dispensing Financial Crutches

The persistence with which Mr. Morgenthau has promoted plans for postwar international currency stabilization through the establishment of a large fund is evidenced by his periodic press releases during the past twelve months. Each successive step from the first presentation of tentative plans prepared by British and American financial representatives has been given publicity calculated to prepare the public to accept some such scheme. The campaign has now reached a state that suggests the possibility that its sponsors hope to push the plan through before the war ends. If definite commitments are not made until after victory has been achieved, a less enthusiastic attitude toward free-handedness may develop in this country.

A recapitulation of the steps already taken will indicate the line of development leading to the acceptance of an international monetary fund. In April 1943, the British and American financial authorities announced preliminary drafts of plans for international monetary coöperation. Although these two plans differed in important details, they both provided for a stabilization fund. Three months later, the Canadian Minister of Finance released a proposal for a similar monetary mechanism. This was shortly followed by the release by the United States Secretary of the Treasury of "a revised draft of the Treasury's tentative proposal for an International Stabilization Fund of the United and Associated Nations."

Another step in this progression toward international commitments has just now been announced. On April 21, Secretary Morgenthau reported that "technical experts of the United Nations have agreed upon a set of basic principles for an International Monetary Fund." The general principles adopted are essentially the same as those outlined in the more preliminary proposals. However, the size of the fund appears to grow as the plans develop. "The joint statement recommends that all of the United and Associated Nations subscribe approximately $8 billion to the fund in the form of gold and local currency." If contributions are based on the proportion of monetary gold stocks held by each participating nation, it is clear that the United States will be the major contributor to the fund if it is accepted.

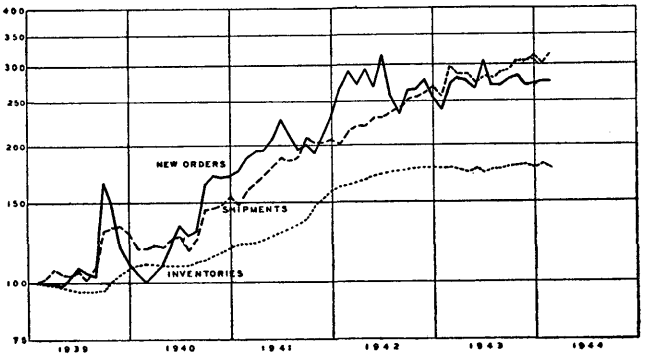
In an editorial criticizing the latest proposal,[1] the *New York Times* stated: "A huge world stabilization fund of the type now proposed is no more than a method by which the nations with strong currencies make loans to the nations with weak currencies. . . . The principal need for world currency stabilization is sound internal policies in each country, not for international machinery. Each nation must want a stable currency enough to accept its necessary consequences. The greatest single contribution that the United States could make to world currency stability after the war would be to declare its determination to stabilize its own currency. It could do this by balancing the budget and by announcing that the dollar was no longer on a 'twenty-four-hour' basis, and subject to every rumor, but firmly anchored to a fixed quantity of gold. This would in turn give an anchor to other nations."

The Institute has expressed its views on the proposed stabilization plan involving the establishment of an international fund in earlier bulletins (April 12, 1943, page 60, and October 4, 1943, pages 157–158). In the October bulletin, we quoted Dr. Palyi's opinion of the proposed fund as follows: "The purpose is *international redistribution of wealth*, in favor of the countries which consume more than they produce. Instead of cutting down *their* consumption, we shall give them *our* products, in exchange for future promises — with no date of maturity, no collateral, and no means of collecting. All of which would amount to an *exact repetition of what we did for Germany in the years* 1924–30. With the sole difference that, this time, we would know in advance where we are headed for."

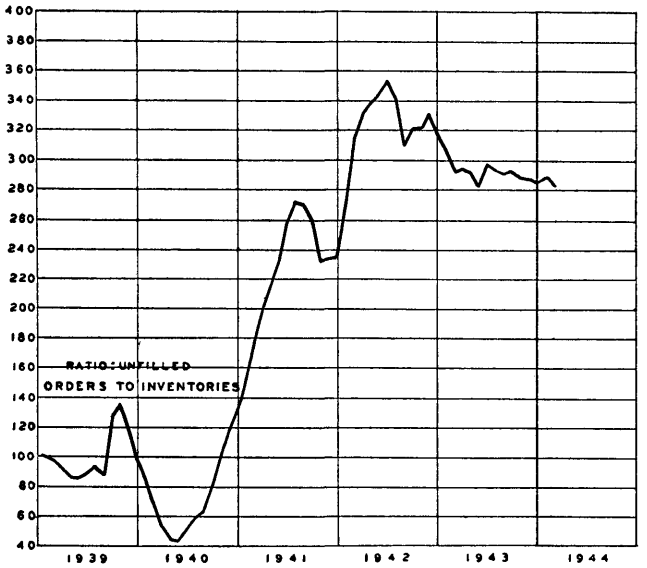
In presenting the report of the technical experts of the United Nations before the Senate Committees on Foreign Relations, Banking, and Currency, and the Special Committee on Postwar Economic Policy and Planning, Secretary Morgenthau stated: "I want to emphasize again that the discussions up to now have all been of a technical nature and exploratory in character. Whatever has been done represents the views of the technical experts of this country and of other countries that have been studying these questions. The United States is not in any way committed until Congress has taken action." It may be the sponsors' strategy to see that the plan is presented to the present Congress rather than to chance the possibility of a more critical attitude on the part of the Congress returned by the November election.

[1] *New York Times*, April 24, 1944, page 18.

INDEXES OF MANUFACTURERS' NEW ORDERS, SHIPMENTS, AND INVENTORIES
(1939=100)



RATIO OF UNFILLED ORDERS TO INVENTORIES

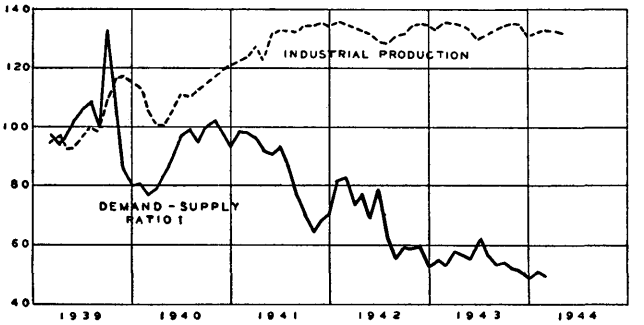


Demand-Supply Ratios

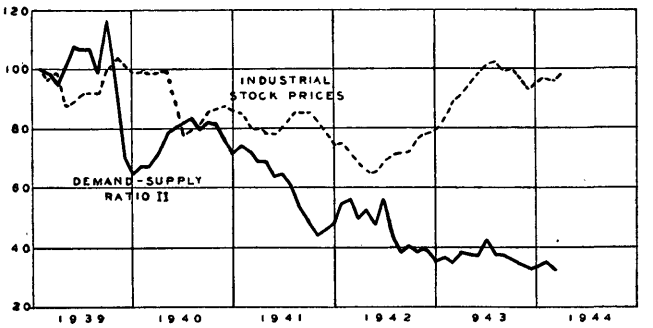
The indexes of manufacturers' new orders, shipments, and inventories, compiled by the United States Department of Commerce, were only recently published for February 1944. Greater-than-normal delay in obtaining information involving the collection of comprehensive statistics has been experienced since the United States became a belligerent. However, the United States Government through its statistical organizations still makes available to the public more business information than can be obtained for any other important nation. The chart in the upper left-hand corner of this page shows the basic indexes from which our demand-supply relationship charts are derived.

The dollar volume of new business placed with manufacturers remained unchanged in February at the January level after adjustment was made for seasonal factors. On the other hand, there was an increase in the volume of shipments in February, and the index reached a new high level for the war period. There was a moderate reduction in manufacturers' inventories during February, but the index was 77½ per cent higher than the base period (January 1939), compared

DEMAND-SUPPLY RATIO I
VS. INDUSTRIAL PRODUCTION



DEMAND-SUPPLY RATIO II
VS. INDUSTRIAL STOCK PRICES



with a peak level of 79½ per cent gain recorded in November 1943.

The ratio of unfilled orders to inventories, shown in the next chart in the same column, was computed by dividing the backlog of orders (obtained by calculating the excess of the new orders index over the shipments index for the period shown on the chart) by the index of inventories. The index follows an upward trend when the volume of incoming orders is larger than the volume of shipments, a situation that existed during most of the months from the middle of 1940 to the middle of 1942. The inventory factor entering into the calculation of the ratio has not appreciably affected the month-to-month changes since the middle of 1942, when the inventory index became relatively stable. The ratio declined in April, because the volume of shipments for that month was greater than the volume of new orders.

The chart at the top of the next column shows the Institute's Demand-Supply Ratio I (new orders divided by shipments times inventories) with the Institute's revised index of industrial production, which is adjusted for long-term trend. This ratio declined moderately in February and was slightly lower than the previous low level recorded in December 1943. After a brief period of recovery during the first half of 1943, Demand-Supply Ratio I followed a downward course, although the loss for the eight months' period has not been great. A condition of balance between demand and supply is obviously desirable, although it is seldom encountered during abnormal times, especially during war time. The level of Demand-Supply Ratio I in relation to the base period is less important than the stability shown by this ratio. Wide month-to-month fluctuations in either direction indicate unsatisfactory economic conditions.

The next chart shown in the same column presents the Institute's Demand-Supply Ratio II with the index of industrial stock prices. This ratio includes industrial production as well as shipments and inventories in the supply factor. This ratio has recently followed a trend similar to that traced by Demand-Supply Ratio I. To the extent that industrial stock prices are influenced by demand-supply factors, the recent behavior of the index suggests that there will be no important stock-market change during the near future.

BUSINESS

The Trend of Commercial Failures

Commercial failures reported during March were less serious than they have been in any month since the present series was compiled by Dun & Bradstreet beginning in January 1939. Both the number and the liabilities involved in business insolvencies were substantially lower than they were either in the preceding month or in the corresponding month of 1943. The number of failures involving losses to creditors was less than 100 for the month, and the liabilities involved decreased to $1,460,000, compared with a previous low monthly level of $1,488,000 reported in September 1943.

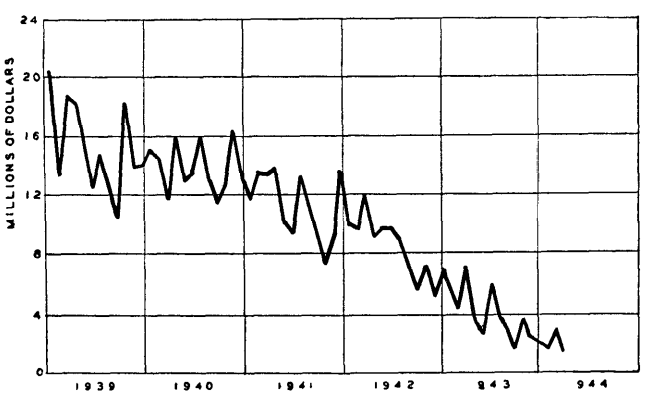
The monthly series showing the number and liabilities of commercial failures during each month of the past two years and during the first three months of 1944 are presented in the following table:

COMMERCIAL FAILURES, NUMBERS AND LIABILITIES

	Number of Failures			*Liabilities of Failures (000 omitted)*		
	1942	*1943*	*1944*	*1942*	*1943*	*1944*
January	962	458	120	$19,916	$5,515	$1,708
February	916	422	132	9,631	4,163	3,108
March	1,048	410	96	12,011	7,282	1,460
April	938	362		9,282	3,523	
May	955	281		9,839	2,550	
June	804	265		9,906	6,076	
July	764	203		8,598	3,595	
August	698	227		6,786	2,905	
September	556	124		5,473	1,488	
October	673	169		7,181	3,785	
November	585	155		5,245	2,402	
December	506	145		6,960	2,055	
	9,405	3,221		$100,818	$45,339	

The accompanying chart of the liabilities of commercial failures, expressed in millions of dollars, shows a persistent though irregular downward trend during the entire war period. During 1939, the monthly average of liabilities of commercial failures was $15,210,000.

LIABILITIES OF COMMERCIAL FAILURES



Using this as the base period, the following indexes are derived for the monthly average in each of the past five full calendar years: 1939, 100; 1940, 91; 1941, 75; 1942, 55; 1943, 25. This extraordinary decline in the insolvency rate is obviously a phenomenon associated with wartime conditions. The great volume of inflationary purchasing media created during recent years has provided individuals and businesses with the wherewithal to meet their bills. Furthermore, the Government is by far the most important employer today, and there are relatively few new private ventures being undertaken. Even if the country enjoys prosperous conditions during the postwar period, a volume of insolvencies larger than that of the past year must be expected.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week advanced from 97½ to 98 per cent of theoretical capacity. *The Iron Age* stated: "The rapidly mounting demand for shell steel is expected to reach a crescendo in October when requirements will be about double those of March. Because the impact of this program is heaviest in the larger size billets, certain mills equipped to make these large sizes will share in the program to a much greater extent than others." This trade authority believes that the industry may have some relief from the steady drain on its labor supply by the draft: "It is expected that Selective Service will announce soon that the manpower supply is sufficient to enable industry to retain essential men over 30 and most essential men between 26 and 30." Several weeks ago, *The Iron Age* expressed the opinion that the Office of Price Administration would soon establish new price schedules for the steel industry. However, the following statement indicates that this view has now been altered: "According to reliable information, announcement of upward adjustments in the price of certain steel products by the OPA has been postponed indefinitely."

	1929	*1932*	*1937*	*1938*	*1943*	*1944*
Per Cent of Capacity	101.0	22.0	91.0	32.5	99.5	98.0

(Latest 1944 weekly data; corresponding week earlier years)

Last week, a total of 4,344,188,000 kilowatt-hours were generated by the electric-power industry, compared with production of 3,925,175,000 kilowatt-hours in the corresponding week of 1943; a gain of 10.7 per cent was indicated. In spite of the increased use of water power and natural gas for the generation of electric power, bituminous coal remains the most important source. Coal-consuming power companies have been generally successful in maintaining adequate supplies of fuel for their needs, in spite of strikes in the mining industry, the greatly expanded demand for electric power, and the larger coal requirements of war industries for steam generation. The electric-power industry does not expect to face a fuel shortage during the next few months but may encounter one next fall if war requirements continue to mount.

	1929	*1932*	*1937*	*1938*	*1943*	*1944*
Billion Kilowatt-Hours	1.70	1.46	2.19	1.94	3.93	4.34

There was a contraseasonal decrease in lumber production last week, and the adjusted index declined from 111.9 to 106.4 per cent of the 1935–1939 monthly average. There will be no let-up in active demand for lumber by the Government as long as we continue to make heavy shipments abroad. Although these will be

greatly reduced after the conclusion of hostilities, discussions by Lend-Lease authorities and other Government spokesmen indicate that shipments of Government-purchased materials to foreign countries will be made for an extended period after peace is restored.

	1929	*1932*	*1937*	*1938*	*1943*	*1944*
New York Times Index	126.7	38.1	86.8	58.5	111.2	106.4

Demand

Reports throughout the country indicate that demand for consumer goods that cannot be satisfied through channels sanctioned by the Government is constantly exerting increased pressure in the bootleg markets. This situation is officially recognized when the OPA makes public announcements of periodic drives against black-market operators. The enforcement of controls is especially difficult at the present time when storage facilities are replete with commodities desired by the civilian population but which they are unable to obtain because of rationing restrictions. The dealers in such commodities naturally desire to move their goods and are faced with the temptation of doing so illegally. This situation, of course, does not apply to most types of consumers durable goods that could not be manufactured during the past two years.

The dollar volume of department-store sales last week was eleven per cent smaller than it was in the corresponding week of 1943. Decreases were general in all sections of the country, except in the Southern States where gains were reported from several cities.

Prices

The sensitive wholesale commodity price indexes remained about unchanged last week. Moody's Spot Commodity Price Index was 249.9 on April 20 and was 249.7 on April 27. The Dow-Jones Index of Commodity Futures closed at 97.05 on April 20 and at 97.47 on April 27.

Although there were minor changes in the items composing the combined cost-of-living index in March, gains and losses were so distributed among the various weighted components as to leave the combined index unchanged at the February level. The index compiled by the National Industrial Conference Board is shown in the following table. 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 February and March 1944 are indicated.

	July 1914	*June 1920*	*Aug. 1939*	*Feb. 1944*	*Mar. 1944*
All Items Combined	61.3	192.0	84.0	103.4	103.4
Food	66.1	147.2	75.3	109.6	109.2
Housing	57.7	91.2	86.2	90.8	90.8
Clothing	58.8	149.9	81.9	91.6	91.7
Fuel and Light	63.3	98.6	84.0	96.0	95.3
Sundries	59.0	107.3	96.9	110.6	111.5

FINANCE

Prospects for a Postwar Currency Dehoarding Movement

Currency in circulation in the United States has risen from about $7,000,000,000 in August 1939 to more than $21,000,000,000 at the present time. The proportion of this currency that is being hoarded can only be estimated. However, it is well established that much of the new currency is not needed for purposes of trade after allowing for the wartime increase in such transactions and in the commodity price level.

Economists are especially concerned about the possibility of a dehoarding movement that might develop after the war has ended. In view of the existing large reservoir of inactive purchasing media in the hands of the public in the form of currency, a concerted desire to spend such cash resources might have a serious effect on the commodity price level. The prospects for a postwar dehoarding movement were recently explored by statisticians of the Federal Reserve System to determine the probable effects on our economic system.[2] The present wartime rise in currency in circulation in the United States was compared with that during the First World War, and our experience was also compared with currency developments in Canada and England during both conflicts.

Inferences drawn from this study are obviously not conclusive, but, if they prove to be correct, they are generally reassuring. The following excerpt summarizes the views expressed concerning probable postwar currency developments:

"Viewed in the light of developments at home during the last war and in Canada and England during both wars, the unprecedented outflow of currency into the hands of the public in the United States during the past few years does not seem so surprising. Both the relative changes and the reasons for the outflow during this war appear to be somewhat similar to World War I and to the experiences in Canada and England during both war periods, at least up to this time, though the dollar magnitudes involved during this war are vastly greater.

"Following the last war somewhat over half of the currency increase returned from circulation in England and Canada and somewhat less than half in the United States. The United States currency increase since August 1939 has been some 14 billion dollars. Even if the war should end this year, the war-period increase might well total between 15 and 20 billion dollars; with a longer war much higher figures are possible. *If*, as in the case of the last war, perhaps two-thirds of this increase should remain outstanding, the total amount of money 'normally' in circulation in the postwar period might well remain in excess of 15 or 20 billion dollars. It should be emphasized, however, that there is no necessary reason to suppose that the currency return flow following this war will be similar to that of the early 1920's. Much will depend on general economic developments during the rest of the war period and immediately thereafter. A postwar inflationary boom might well bring further large increases in currency in the hands of the public, and maintenance of prices and incomes at a relatively high level following the war would undoubtedly tend to keep a substantial portion of the increased currency outstanding. Other portions would probably flow back to the banks with a return to more normal conditions. Large scale unemployment, on the other hand, would decrease transactions needs and draw into use much currency now temporarily being saved. Certainly the prospects for postwar currency developments hinge very largely on the level and stability of national income, prices, and employment."

[2] Currency in Circulation, by G. L. Bach, Division of Research and Statistics, *Federal Reserve Bulletin*, April 1944, pages 318–328.