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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

War and Postwar Treasury Finance

Early this month, the Director of the Bureau of the Budget made public a comprehensive statement of the fiscal aspects of the war program. In summarizing the cost of the war to the present time, he stated: "For the last four critical years and the one ahead, the Congress has appropriated and authorized a defense and war program of 393 billion dollars. Of this amount, 294 billion dollars, or about three-fourths, had been translated into war contracts and other obligations and commitments by June 30, the end of the fiscal year 1944."

Although the report pointed out that there has been a great increase in the productivity of the revenue system, the figures presented emphasize its inadequacy even after the imposition of heavier tax rates. The fiscal year 1942 began before the United States entered the war, although our rearmament program had reached substantial proportions before the Pearl Harbor attack. Net Treasury receipts for that fiscal year were only 37 per cent of Government expenditures. In the fiscal year ended June 30, 1943, when we were achieving full-scale war production but before increased tax rates had brought in substantially larger revenues, Treasury receipts covered only 28 per cent of expenditures. The "great productivity of the revenue system," to which the Director of the Bureau of the Budget points with satisfaction, failed to supply funds for more than 46 per cent of Government expenditures during the fiscal year 1944 that ended last June 30. A similar coverage is estimated for the fiscal year 1945.

The large Treasury deficits in consequence of the failure of receipts to cover expenditures has resulted in raising the public debt from less than \$50,000,000,000 at the end of June 1941 to more than \$200,000,000,000 at the end of June 1944. It is pointed out in the report under discussion that the Treasury's general fund balance was unusually large at the end of last June following the completion of the Fifth War Loan campaign. However, if this balance is reduced by about \$5,000,000,000 at the end of the next fiscal year, it is estimated that the outstanding Federal debt at that time will be \$251,000,000,000.

War Loan Campaigns

Fortunately for the fiscal welfare of the country, war loan campaigns are still meeting with success. Sales of war bonds in the Treasury's Fifth War Loan campaign reached an unprecedented total of \$20,639,000,000. The

goal of the Fifth War Loan was \$16,000,000,000. The corporations' quota was \$10,000,000,000, which was exceeded by approximately \$4,309,000,000, and the quota for individuals was \$6,000,000,000, which was exceeded by \$330,000,000. The Secretary of the Treasury stated that more individuals bought bonds in the Fifth War Loan than in any previous drive, and more men and women than ever before served as members of volunteer sales organizations.

Treasury officials have already announced tentative plans for launching another major War Loan drive on Armistice Day. If the war in Europe ends before that time, it is doubtful whether the Treasury will make any change in its plans. Nevertheless, the success of the campaign may be dependent on the course of the war during the next few months.

The so-called Victory Loan floated after the First World War had ended in 1918 was not accorded an enthusiastic public response but was marketed through recourse to the commercial banks. The loan was primarily required to finance large credits to European countries for rehabilitation. A situation almost identical in character may arise again. However, if the war in the Pacific is still in progress, the patriotic appeal can still be used effectively in Treasury loan drives.

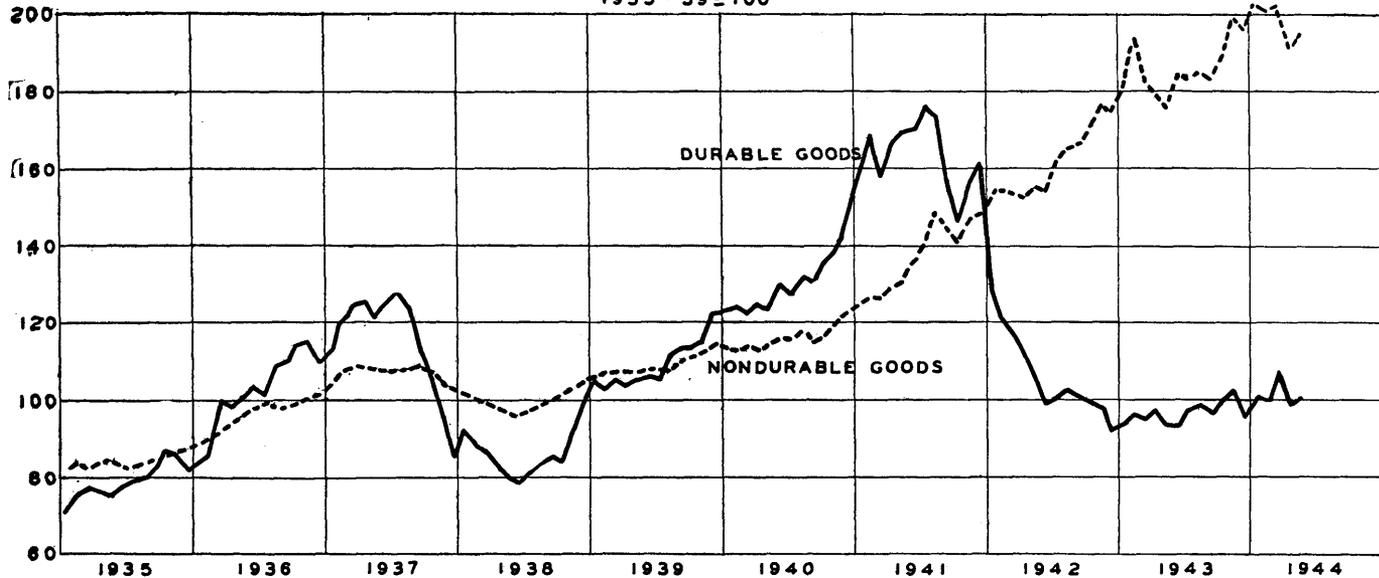
Postwar Treasury Deficits

If Prime Minister Churchill's expressed hopes are realized and the conflict in both hemispheres comes to an end in the relatively near future, it would be possible for a Government following prudent policies to put an immediate end to budgetary deficits. War workers' withholding tax payments would be reduced when work on Government contracts has stopped, but the high level of tax rates would bring in considerable sums in revenue before Congress would be able to take action to afford rate relief. It is obviously possible to bring the Federal budget into balance soon after the war stops, but unfortunately the prospects for such a development are not favorable.

As soon as the military situation permits a major curtailment of war spending, powerful pressures will be exerted to forestall any substantial decrease in the rate of Government spending. Extravagant employment benefits (such as those provided for in the Murray-Kilgore bill), Government "make-work" undertakings, and similar measures threaten to dwarf the large outlays of the original New Deal's spending-for-prosperity era. The \$10,000,000,000 spent by the WPA would not go far towards satisfying the unemployed so recently

INDEXES OF RETAIL SALES

1935 - 39 = 100



accustomed to pay envelopes swollen by penalty overtime rates. If Congress accedes to this demand alone, there will be little hope for achieving a balanced Federal budget after the war.

There are other serious threats to the retrenchment of Government spending after the war. Only a resolute Congressional stand can prevent the perpetuation of Lend-Lease after peace has been restored. The Government will have a huge merchant marine tonnage, which might provide revenue for the Treasury, but which will probably be a source of expense because it can be operated only with the aid of public subsidies. The influences enumerated are only a portion of the number that will stand in opposition to a condition of balance in the postwar national budget.

BUSINESS

Indexes of Retail Sales

The indexes of retail sales, shown in the chart at the top of this page, were compiled by the United States Bureau of Foreign and Domestic Commerce. The data for the first five months of 1944 have just been published. The indexes are intended to reveal the trend of consumer expenditures, about two-thirds of which are made through retail-store outlets. There are separate indexes for durable goods stores and nondurable goods stores, and there is a considerable difference in the trend of these two series under abnormal conditions, such as have existed since the war began in 1939.

The durable goods outlets used in compiling the index include stores selling building materials, hardware, household furnishings, and passenger automobiles. Following the boom in durable goods during the first half of 1941, the trend of durable goods sales was sharply downward for a year and a half. Early in 1943, the index became stabilized and has subsequently exhibited a slight tendency toward recovery. However, with prices exerting pressure against established ceilings (the indexes are based on dollar volume of sales), the slightly upward trend may be more apparent than real as applied to the physical volume of durable consumer goods.

Nondurable goods stores include food stores, restaurants, apparel stores, filling stations, drugstores, and general merchandise stores. The dollar sales volume of these outlets, adjusted for seasonal variations, reached a high level for the movement as recently as January 1944, two years and a half after the crest of the upward movement of the durable goods index was passed. This index declined substantially in April and recovered only moderately in May. Although the May index was four per cent lower than the level reached in January this year, it remained 86 per cent higher than the average for the base period 1935-1939.

The dollar volume of retail sales would probably be substantially larger than it is if goods of satisfactory quality were available in ample quantities. Supplies of new consumer durable goods have virtually disappeared from the civilian markets, and many types of nondurable goods available for sale are unsatisfactory as to quality. The following outline of the situation, published by the United States Department of Commerce, indicates the belief on the part of Government officials that the wartime decrease in civilian supply has passed its lowest point:

"While only slight change may be anticipated in the availability of nonmilitary goods over the next few months, little doubt remains that the wartime civilian economy has passed its period of greatest stringency. Support for this conclusion is to be found in the volume of food supplies and crop prospects, in the stability in the construction industry, in fuel supplies which though difficult can probably be maintained at present levels, in recent trends in production of consumption goods, and in shifts in employment. . . .

"The civilian share in industrial production reached its low in the second and third quarters of 1943. It has since been stabilized — the very slight movement being upward, partly as a result of the increase in materials made available to the industries producing goods for the maintenance of the domestic economy.

"The situation at this time may, therefore, be described as one of temporary balance. This balance in production is not likely to be long maintained because

increasing efficiency in munitions production is freeing resources that will be available for other uses. These will mean either (a) less complete utilization of our resources, (b) an expansion of the output of nonmilitary goods and services, or (c) adjustments through a combination of the two."

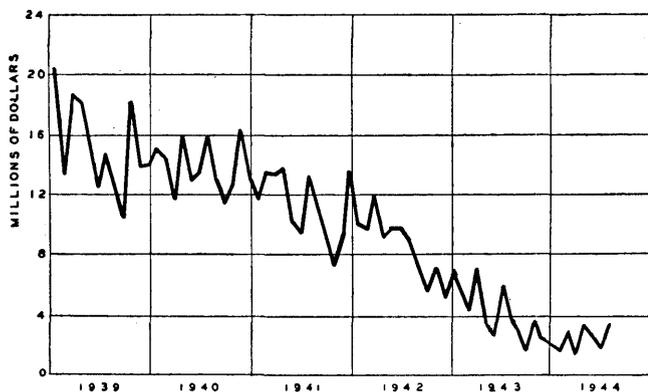
The Trend of Commercial Failures

The number of business insolvencies decreased during July from the June total, but there was a substantial increase in the liabilities involved from the preceding month's level. Liabilities of \$3,559,000 in July were nearly twice the total of \$1,854,000 recorded in June but were about the same as aggregate liabilities of \$3,595,000 in July 1943. The number of failures recorded in July this year was only ninety-one, the lowest shown by the statistical series compiled by Dun & Bradstreet that was started as of January 1939. The number and liabilities of commercial failures during each month of the past two years and during the first seven months of 1944 are shown in the accompanying table:

	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	131	9,282	3,523	3,524
May	955	281	148	9,839	2,550	2,697
June	804	265	110	9,906	6,076	1,854
July	764	203	91	8,598	3,595	3,559
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 following chart shows the liabilities of commercial failures during the war period. In comparison with average monthly losses through insolvencies in 1939, the average for the past twelve months has been reduced to almost negligible proportions. Nevertheless, the appearance of the chart suggests that a reversal of the trend is in the process of developing. The sharp increase in the liabilities of commercial failures in July is less significant, because it was not supported by an increase in the number of failures. Evidences of widespread distress will include an expansion in the number

LIABILITIES OF COMMERCIAL FAILURES



of failures as well as an increase in the liabilities involved.

Newspaper Advertising

After the war started in Europe in 1939, newspaper advertising was stimulated, and linage increased consistently until the United States entered the conflict. During the first year of our war participation, this type of advertising was appreciably curtailed; in fact, radio broadcasting was the only important advertising medium that did not initially suffer serious ill effects from the war. During 1943 newspaper advertising business began to expand, with emphasis placed on classified and general display advertising. These classes of advertising benefited from the extraordinary demand for war workers and for used equipment of various sorts.

During 1944, there has been a general tendency toward expansion in nearly all types of newspaper advertising, in spite of the growing inadequacy of newsprint supply. The latest figures available indicate that all classes of newspaper advertising, except automotive and financial display advertising, have increased in comparison with the prewar level.

Newspaper advertising linage in the dailies of fifty-two cities during June 1939 and June 1944, with the percentage changes that have occurred, are shown in the accompanying table:

Newspaper Advertising Linage Classified	June 1939 (Millions of Dollars)	June 1944	Per Cent Increase June 1944 From June 1939
	23.2	25.9	11.6
Display			
Automotive	5.6	3.2	41.1*
Financial	1.5	1.5	...
General	17.1	21.1	23.4
Retail	55.9	60.9	8.9
Total	103.3	112.6	9.0

* Decrease

THE FUNDAMENTALS

Supply

The steel-ingot production rate was unchanged last week at 97 per cent of theoretical capacity. This rate was 1½ points lower than the rate that prevailed during the corresponding week of 1943. Because plant facilities have been improved during the past twelve months, the current schedule is estimated to produce 1,737,500 net tons of ingots and castings, compared with actual output of 1,704,000 net tons in the corresponding week of last year. *The Iron Age* stated: "Postwar planning, while becoming more of a general topic of discussion than it has been at any time heretofore, has affected the steel industry to a minimum so far. Sample orders are not materializing, and inquiries traceable to probable postwar activity have not appeared. Coincident with this is the extreme low point in the number of steel-order cancellations. Those which have appeared recently have been more than offset by new orders." The magazine, *Steel*, summarized the present situation in the industry as follows: "With military procurement agencies, particularly the army, striving for a new peak in ordnance production this fall, pressure for prompt steel tonnage appears as heavy as it has been at any time. Now the necessity is apparent for higher operat-

ing rates if the new goals are to be achieved and this means more labor and a minimum of work stoppages. Of major importance to the ordnance program also is need for greater manpower in some affiliated lines, where severe choke points have developed, especially in forgings and castings. However, attention of Washington and industry representatives to this situation holds some promise of relief."

	1929	1932	1937	1938	1943	1944
Per Cent of Capacity	93.0	14.5	83.0	40.0	98.5	97.0

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

Electric-power production last week exceeded that in the corresponding week of 1943 by 3.7 per cent, a slightly smaller gain than was recorded in the preceding week when the comparison indicated an increase of 3.9 per cent. Gains in electric-power production from output a year ago are gradually narrowing.

	1929	1932	1937	1938	1943	1944
Billion Kilowatt-Hours	1.75	1.43	2.30	2.14	4.24	4.40

Lumber production decreased substantially last week, when a seasonal upturn was expected. Consequently, the adjusted index declined from 113.7 to 106.2 per cent of the 1935-1939 monthly average.

	1929	1932	1937	1938	1943	1944
New York Times Index	128.9	35.4	84.4	73.5	111.3	106.2

Demand

The Federal Reserve index of department-store sales last week was four per cent higher than the index reported in the corresponding week of 1943, compared with a gain of 11 per cent in the preceding week. The index for the four weeks ended July 29 was 10 per cent higher than the average for the corresponding period last year. The gain was larger than the increase of seven per cent for the first half of the year. These figures suggest that the summer lull in department-store business is somewhat less pronounced in July this year than it was in July 1943.

Prices

Although losses in speculative commodity markets last week were small, there were indications of nervousness on the part of traders. It is apparent that dealers in commodities are wondering how a possible sudden termination of the war in Europe would affect the demand for staple commodities. Moody's Spot Commodity Price Index was 249.9 on August 3 and was 249.5 on August 10. The Dow-Jones Index of Commodity Futures closed at 95.10 on August 3 and at 94.52 on August 10.

Although there were changes during June in the averages for the separate items used in calculating the cost-of-living index, the index for all items combined remained unchanged at the May level. There was a small fractional decline in food costs and in the average cost of fuel and light. Clothing prices were slightly higher, and there was a small increase in the average cost of sundries. There was no change in the cost of

	July 1914	June 1920	Aug. 1939	May 1944	June 1944
All Items Combined	61.3	192.0	84.0	104.4	104.4
Food	66.1	147.2	75.3	110.7	110.6
Housing	57.7	91.2	86.2	90.8	90.8
Clothing	58.8	149.9	81.9	92.3	92.5
Fuel and Light	63.3	98.6	84.0	95.3	95.1
Sundries	59.0	107.3	96.9	113.2	113.3

rentals. The composite index, prepared by the National Industrial Conference Board, and separate items for May and June 1944 and for earlier significant periods are shown in the accompanying table.

According to this index, the cost of living has advanced about 24 per cent during the war period from August 1939 to June 1944. During the First World War period, the figures for which are indicated in the table, there was an increase of slightly more than 200 per cent. The figures shown are for July 1914, before the First World War started in Europe and for June 1920, when the high point in the price advance was reached, twenty months after the war had ended.

FINANCE

New Capital Issues in Great Britain

Before the outbreak of the European war, we regularly published monthly series showing the value of new capital issues in Great Britain. It was thus possible to compare the flow of new capital into industry in the United States with that in England. Monthly data are no longer available, but semiannual figures are now being compiled by the British Midlands Bank. The following is a summary of the annual figures for the preceding twenty-four years and for the first half of 1944.

NEW CAPITAL ISSUES IN THE UNITED KINGDOM

Year	Millions of Pounds	Year	Millions of Pounds
1920	384	1933	133
1921	216	1934	150
1922	236	1935	183
1923	204	1936	217
1924	224	1937	171
1925	220	1938	118
1926	253	1939	66
1927	315	1940	4
1928	363	1941	2
1929	254	1942	4
1930	236	1943	9
1931	89	1944 (first half)	2
1932	113		

The record of new capital issues in Great Britain during August 1939 gave no indication that an immediate outbreak of war was anticipated. However, when hostilities actually commenced, there was an immediate drying up in the flow of funds into private industry. The volume of new corporate flotations during the full year 1940 in the London market was smaller than the volume usually issued in an average month during the preceding decade. Issues totaling £4,000,000 offered in 1940 were reduced to £2,000,000 in 1941. The record for 1942 showed an improvement over that for the preceding year, and private borrowing, although meager, reached the 1940 level. Further improvement was shown in 1943, when the 1942 total was more than doubled at £9,000,000. This auspicious trend was not continued during the first half of 1944, when only £2,000,000 of new corporate financing was undertaken. New corporate financing in the United States this year has averaged \$48,000,000 per month. This is more than the total of new capital issues of corporate securities offered in the London market in any full year since the war began in 1939.

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