

AMERICAN INSTITUTE for ECONOMIC RESEARCH

54 Dunster Street, Harvard Square - Cambridge, Mass.

WEEKLY
BULLETIN

October 1
1945

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

French Experience 1914 to 1945

In the concluding paragraph of the September 10, 1945 Research Report bulletin, we said: "We believe that there is little probability of return to a normal situation in the near future. A crisis of some magnitude is expected by late 1946 or early 1947, but present indications are that we shall follow the path traced by France during the past three decades, until we learn the elementary lessons of sound finance."

Two subscribers have written asking that we describe in greater detail the implications of this paragraph, especially by indicating more clearly the path traced by France during the past three decades. It seems probable that many other readers will also be interested in this further discussion.

Three decades ago, the French franc was and for some time had been stabilized at approximately 20 cents. During World War I, France chose the inflationary method of financing her war effort. Although the exchange value of the franc was maintained nearly at par during the war, this was accomplished only by means of special arrangements with Great Britain and the United States. All during this period, the progressive inflation was undermining the real value of the franc. By November 1918, the franc had declined about four per cent in terms of the dollar.

Shortly after the Armistice in November 1918, the foreign exchange value of the franc began to fall, and, by April 1920, the franc was worth less than seven cents. A recovery followed to a high of nearly 10 cents in April 1922.

Meanwhile, France had embarked on a vast reconstruction program, somewhat like the New Deal's spending program of 1935-36 in the United States. Although it was hoped that reparations from Germany would ultimately pay the bill, the French Government's deficits were financed by the usual inflationary means. A thorough test of the beneficence of an ever-increasing burden of debt was in progress.

The exchange value of the franc resumed its downward trend after 1922; and, by 1924, the franc was worth less than five cents. There were kaleidoscopic shifts of political parties in control during the years that followed, but none proved capable of finding even a temporary solution until the Poincaré regime of 1926. The franc was then stabilized at four cents. After a further period of turmoil and uncertainty, the franc was officially devalued to four cents in 1928.

France then enjoyed a few years of relative pros-

perity, and, because of various special circumstances, was not so adversely affected by the depression of the 1930's during its first two or three years.¹ The franc rose in the markets for international exchange, in large part as a result of our devaluation of the dollar, to about 6.5 cents in 1934.

By 1935, however, France was experiencing the full effects of the worldwide depression. Again there was a resort to economic nostrums; the budget remained unbalanced; and various pressure groups were favored by such enactments as those providing the forty-hour week, higher minimum wages, subsidies for agriculture, and so forth. The franc declined in the foreign exchange markets and was again devalued in 1936. The new gold content was less than 15 per cent of the 1914 par; but, in terms of the devalued American dollar, the franc was worth about five cents.

The demands of the many powerful pressure groups were too strong to resist in the years that followed. Budget deficits continued, and the franc again began the downhill slide in the markets for foreign exchange. By 1939, the franc was worth only 2.5 cents (1.6 cents of the former gold dollar).

World War II presented new problems for the people of France, and government by organized pressure groups once more proved unequal to the task. It is unnecessary to recount in detail the belated and futile efforts of France to recover her ability to produce, even in her war industries. The nation had been sold out to the highest bidders and was virtually destroyed years before Hitler dared to attack the hollow shell that remained.

At the end of World War II, the franc was nominally worth two cents, by courtesy of Great Britain and the United States. It is generally conceded that a third devaluation of the franc must soon be ordered and that the franc is probably not worth more than one of our 40 per cent devalued cents.

In general, wholesale prices and the cost of living in France have reflected the peregrinations of the franc. From 100 in 1914, wholesale prices rose to 718 in 1926, slumped to 347 in 1935, and rose to 700 in 1939. Subsequent data are not available, but fragmentary reports clearly indicate that the fall of the franc has been matched by a corresponding or greater increase in the cost of living in France.

¹ For a more detailed and exceptionally fine analysis of this aspect of the problem, readers are referred to "The International Gold Standard Reinterpreted 1914-1934," by William Adams Brown, Jr., published by the National Bureau of Economic Research.

In only three decades, a once mighty nation has become a third- or fourth-rate power; industrially, France is now a backward nation; and politically, she seems to be nearly incapable of self-government.

No doubt, many causes have contributed to the situation in which France now finds herself. But, there is every reason to believe that government by and for pressure groups and the insidious undermining effects of successive deficits and progressive inflation are among the more important immediate causes.

It is desirable to remember that the French middle class, the relatively fixed-salary groups, and especially those who are dependent on life insurance and pensions have been the victims of an atrocious swindle. The thrifty and industrious who sought to save for old age and to provide for widows and orphans have, in effect, lost 95 per cent of their hard-earned protection. It is a rather bitter pill, but experience always has been a costly school, and many people will learn in no other.

Progress of Reconversion

The latest available information regarding the significant indicators of future trends is summarized in the following table. A plus sign indicates an advance in the indicator; a minus sign, a decline; and a zero, an unchanged condition all with respect to the immediately preceding period.

	Latest Indication
Private Engineering Contracts	+
Machine-Tool Orders	-
Orders for Steel Boilers	+
Capital Goods' Stock Prices	-
Employment	-
Steel-Ingots Production	+
New Capital Issues of Corporate Securities	-
Carloadings of Heavy Products	-
Lumber Production	+
Electric Power Production	-
Harwood Index of Inflation	-

The favorable implications of the preceding week's record were reversed last week by a score of seven to four against satisfactory progress of reconversion. Temporarily, at least, the outlook has been overshadowed by adverse factors. The trend of the indicators during the next few weeks will be especially significant.

BUSINESS

The Trend of Commercial Failures

Both the number of commercial failures and the liabilities involved decreased during August. The number of failures reached a new low level for the war period, and the liabilities involved were close to the lowest level reported. Before the war, the normal rate of insolvencies averaged about 1000 per month. The number reported each month decreased steadily during the war period, and the August total of fifty-six can be considered negligible. A similar trend has been followed by the liabilities of commercial failures, which, before the war, averaged about \$20,000,000 per month, and in August 1945 were reduced to slightly more than \$1,000,000.

The revised statistical series, compiled by Dun & Bradstreet, include in addition to voluntary and involuntary bankruptcies, long-term discontinuances with loss to creditors, and statistics of concerns forced out

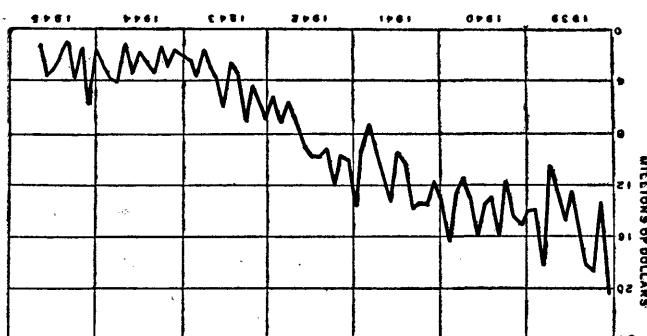
of business through such action as foreclosure, attachment, or execution with insufficient assets to cover all claims. The number and liabilities of commercial failures during each month of the past two years and during the first eight months of 1945 are shown in the accompanying table:

COMMERCIAL FAILURES, NUMBERS AND LIABILITIES

	<i>Number of Failures</i>			<i>Liabilities of Failures (000 omitted)</i>		
	1943	1944	1945	1943	1944	1945
January	458	120	80	\$5,515	\$1,708	\$5,883
February	422	132	66	4,163	3,108	1,557
March	410	96	85	7,282	1,460	3,880
April	362	131	90	3,523	3,524	980
May	281	148	72	2,550	2,697	2,208
June	265	110	61	6,076	1,854	3,198
July	203	91	72	3,595	3,559	3,659
August	227	77	56	2,905	1,054	1,166
September	124	75		1,488	4,065	
October	169	74		3,785	3,819	
November	155	75		2,402	3,008	
December	145	93		2,055	1,804	
	3,221	1,222		\$45,339	\$31,660	

The accompanying chart shows the liabilities involved in commercial insolvencies in billions of dollars each month. Month-to-month fluctuations are rather wide, but the general trend is apparent. At the end of 1943, the appearance of the chart indicated that the long decline in the series based on commercial failures had come to an end, primarily because liabilities approached the vanishing point. During the first half of 1944, the curve appeared to exhibit a moderately advancing tendency. However, after January 1945, the general trend of the curve was downward again. Ultimately, commercial insolvencies will again increase in number, and such a development can probably be expected to accompany the readjustment of trade and industry from wartime to peacetime conditions.

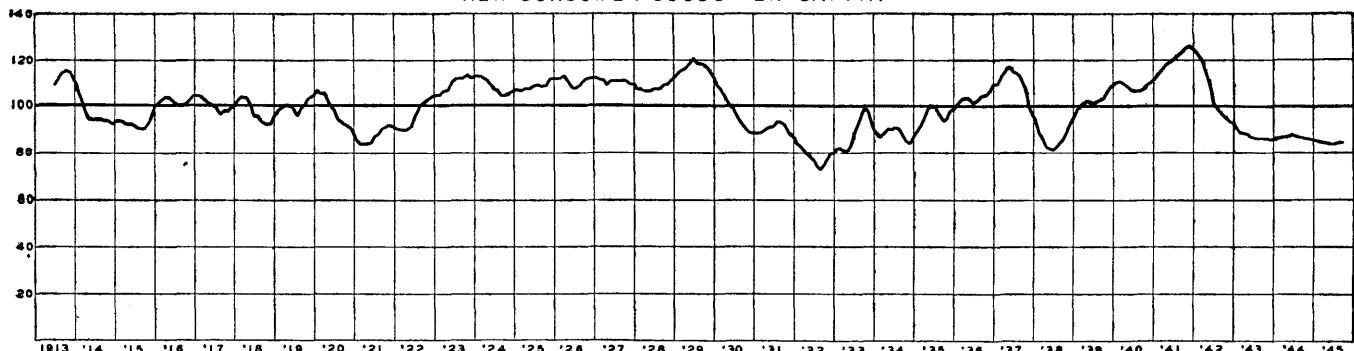
LIABILITIES OF COMMERCIAL FAILURES



Labor Disputes vs. Industrial Production

Comprehensive data regarding industrial disputes are prepared by the United States Bureau of Labor Statistics, but several months are required for collection and analysis of the reports. Therefore, data bearing on the present strike wave may not be available until the acute phase of the labor disturbance has passed. Nevertheless, some encouragement may be derived from the historical record, which indicates that acute phases of labor strife have generally, although not invariably, occurred during periods when the level of industrial activity has been high and that a large volume of goods has been produced in spite of interruptions to work directly and indirectly caused by strikes.

NEW CONSUMER GOODS PER CAPITA



The most extensive continuous statistical series reflecting the incidence of strikes that also shows the number of workers involved covers a period of nearly three decades beginning in 1917. The year-to-year fluctuations in this series during the period in which comparisons can be made with the more informative record of "man-days idle during the month" caused by strikes show a generally close correlation. Therefore, the series that extend over a longer period of time appear to be satisfactory to show the general trend of industrial tie-ups through labor disputes.

The following table presents figures that afford a basis for comparing the trend of strike activity with the trend of industrial production. The column showing strike data presents an average of the number of workers involved in strikes that began in each month of the years specified. The last column shows the degree to which the rate of industrial production was above or below estimated normal in each year. Calculations were made from the Institute's index of industrial production which is adjusted for long-term trend and which is shown in chart form in the monthly Research Report bulletins.

Year	Average Number of Workers Involved In Strikes, Monthly (000 Omitted)	Industrial Production Per Cent Above or Below (-) Normal
1917	133	25
1918	102	17
1919	103	5
1920	347	10
1921	122	-23
1922	92	3
1923	134	17
1924	63	10
1925	55	15
1926	36	18
1927	27	16
1928	26	20
1929	24	27
1930	15	-1
1931	28	-20
1932	27	-39
1933	97	-32
1934	122	-24
1935	93	-12
1936	66	4
1937	155	12
1938	37	-16
1939	98	6
1940	48	14
1941	197	32
1942	66	36
1943	247	35
1944	164	28

New Consumer Goods Per Capita

The Institute's index of new consumer goods per capita for September was slightly lower than the August index. The index is 84.7 per cent of estimated normal, compared with 84.8 for August.

The index, shown in the chart at the top of this page, is a six months' moving average of the volume of durable and nondurable consumer goods produced in the United States per capita. The index is adjusted for seasonal influences and for long-term trend and is expressed as a percentage of estimated normal.

The pattern of the index suggests that the duration of the condition of subnormal consumption standards that has existed for a period of three years will continue for the remainder of this year and perhaps during the early months of 1946. During a cyclical business depression, the consumption of goods and services is reduced primarily because of the financial inability of many persons to pay for them. This situation is of course always true to a lesser degree, but at the present time, with purchasing media available to the public abnormally abundant, the reduction of the Nation's consumption standards is caused by the inadequacy of the supply of goods. This unbalanced situation will gradually be remedied, as mass production of civilian consumer goods is resumed by industrial establishments. The index of new consumer goods per capita should rise to normal during the first half of 1946.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week advanced fractionally from 83 to 83½ per cent of theoretical capacity. It was estimated that last week's schedule would produce 1,531,000 net tons of ingots and castings compared with actual production of 1,710,700 net tons in the corresponding week of 1944. *The Iron Age* stated: "The epidemic of strikes in progress this week with more to come may result in so heavy a drain upon workers' savings that the expected post-war consuming buying bubble may be deflated somewhat in the beginning at least. Current management-labor conditions have all the earmarks of a knock-down dragout fight, and the action of most unions in adopting an uncompromising attitude in their demand for a 30 per cent increase apparently means a last ditch fight to obtain the equivalent of wartime pay for a 40-hour peacetime week. While the automobile industry seems to be the one destined to feel the first effects of the militant CIO drive for higher wages, the steel

industry may not be far behind. The same general policy which has dictated the union automobile wage conditions encompasses all other CIO affiliates among which is the United Steel Workers of America, which is to meet with steel companies soon on the request for a \$2 a day increase."

	1929	1932	1937	1938	1944	1945
Per Cent of Capacity	85.0	17.5	71.0	48.0	94.0	83.5
(Latest 1945 weekly data; corresponding week earlier years)						

Year-to-year comparisons of electric-power production appear to be becoming less favorable. Last week, electric-power output was 8.2 per cent less than it was in the corresponding week of 1944, compared with a loss of 6.6 per cent in the preceding week. The decrease in electric-power production was most pronounced in the Central Industrial region where strikes are especially prevalent.

	1929	1932	1937	1938	1944	1945
Billion Kilowatt-Hours	1.82	1.51	2.28	2.15	4.38	4.02

Lumber production increased more than seasonally last week, and the adjusted index advanced from 74.4 to 77.3 per cent of the 1935-1939 monthly average. During recent weeks, the industry's operations have averaged about 25 per cent below the levels maintained during corresponding weeks twelve months earlier. Seasoned lumber is not available in many sections of the country, so that the removal of restrictions on supplies for civilian purposes has not yet had an important effect.

	1929	1932	1937	1938	1944	1945
New York Times Index	121.9	37.0	76.1	75.1	95.6	77.3

Demand

The Federal Reserve Index of department-store sales last week was 14 per cent higher than the index reported in the similar week of 1944. Spending for consumer goods will be reduced by strikes, especially in the more acutely affected regions. This has been demonstrated by reports of retail sales in individual cities, which showed substantial decreases in centers such as Detroit, where manifestations of labor unrest developed early in the reconversion period. However, if the Army's program for the release of personnel at a more rapid rate than was planned a few weeks ago is carried out, a fresh source of civilian demand will be created that should materially help the situation.

Prices

Prices of staple commodities fluctuated within a narrow range last week. The Dow-Jones Index of Commodity Futures was 100.54 on September 20 and was 100.89 on September 27.

FINANCE

New Capital Issues

The capital issues of corporate securities less refundings offered during August aggregated \$106,000,000, compared with a total of \$212,000,000 in the preceding month. Although the volume was only half that in July, it was larger than the monthly average for any year since 1931 (slightly exceeding the monthly average for 1937).

During the postwar period, corporations will need funds to finance the readaptation of manufacturing facilities to peacetime requirements. Furthermore, there will be many new products that can be profitably

manufactured now that raw materials are becoming available for private enterprise. The volume of consumer credit has been substantially reduced, and a subsequent expansion will promote heavy demand for consumer goods. In many instances, an enlarged volume of private financing will be prerequisite to an adequate supply of producers goods. It is therefore probable that the volume of new capital issues during the next few years will be much larger than the average for the recovery period that preceded the outbreak of the Second World War.

The new corporate debt incurred in August was preponderantly for industrial corporations. The railroads entered the market for about \$10,000,000, representing issues of equipment-trust certificates. The public utilities borrowed \$4,300,000. Forty per cent of the new issues, measured by par value, was in the form of common stocks.

New capital financing in August and in the first eight months of each year during the past twenty years is shown in the accompanying summary:

NEW CORPORATE FINANCING IN THE UNITED STATES

Year	First Eight		Year	First Eight	
	August	Months (In Millions of Dollars)		August	Months (In Millions of Dollars)
1926	176	3,062	1936	171	691
1927	256	3,354	1937	51	961
1928	180	3,137	1938	125	617
1929	310	4,664	1939	25	293
1930	122	4,035	1940	68	388
1931	46	1,468	1941	327	755
1932	26	249	1942	59	570
1933	14	126	1943	22	192
1934	8	127	1944	96	441
1935	30	186	1945	106	704

Source: *Financial and Commercial Chronicle*.

RECOMMENDED BOOKS

Readings in Business Cycle Theory, Selected by a Committee of The American Economic Association, The Blakiston Company, Philadelphia. (\$3.75)

These republished articles are intended to make readily available the most useful periodical literature on the subject. A Committee of the American Economic Association, under the chairmanship of Professor Gottfried Haberler, undertook the task of selecting and arranging this series of articles.

The book is in six parts. The first discusses the overall picture of the business cycle and methods of analysis. The other five parts of the book present discussions of the various types of business-cycle theories. There is no attempt to offer a final analysis or summary of the conclusions that might be justified.

This volume will be especially interesting to students of the business cycle. In addition to the articles reprinted, there is an extensive bibliography that will be useful as a reference list.

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