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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

A Temporary Victory for Labor Leaders

Organized labor leaders apparently feel that they and their membership have won a victory over the rest of the Nation; first, in "persuading" the President to veto the Case bill and, second, in summoning enough strength in the House of Representatives to sustain the veto. In spite of flagrant abuses, the protection afforded organized labor by the New Deal's social legislation, still prevents the Government from subjecting labor leaders to compliance with laws that other citizens are constrained to obey. This privileged class is now free to exploit not only the public but also the rank and file in their own organizations.

The flaws seen by President Truman in the Case bill are in some of the instances he pointed out real enough and in other instances his criticism appears to be aimed at imaginary flaws. A comparative study of the President's two messages to Congress, one in regard to the railroad-strike crisis and the other his message vetoing the Case bill, reveals inconsistencies. In the former, he was urging hasty action in regard to the Government's labor policy; whereas, in the latter, he emphasized the desirability of a careful and thorough study of labor policy by Congress. In fact, the President seems to feel now that a solution of the problem in respect to labor relations requires a study of the whole social-economic field. This is indicated by the following excerpt from the President's veto message:

"A solution of labor-management difficulties, therefore, is to be found not alone in well-considered legislation dealing directly with industrial relations, but also in a comprehensive legislative program designed to remove some of the causes of the insecurity felt by many workers and employers. . . . Legislation governing industrial relations is workable only when carefully considered against this broad background. I am confident that with painstaking and dispassionate study which will probe fairly and deeply, Congress can evolve equitable legislation which promises an era of peaceful industrial relations."

The general public is primarily interested in having economic order restored in such a way as to permit a return at least to the prewar level of consumption of goods and services. This will be impossible as long as the existing degree of labor strife continues.

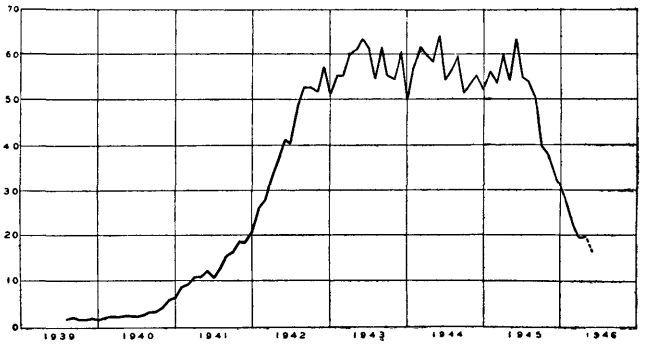
It seems to be humanly impossible for a privileged group to refrain from abusing the advantages it has acquired. Therefore, there can be no confident expectation that the hierarchy of organized labor will adopt the wise policy of settling down to enjoy the gains recently wrested from the public.

The disposition of the public tends to be lenient toward organized labor, and the disfavor incurred by labor leaders during the past few months might be forgotten during the course of a few years of comparative quiet in industrial relations. The real sentiment of the people toward labor unions will be disclosed by next fall's elections. There are indications that the labor movement has suffered a more serious loss of public favor than has yet been revealed in the attitude of the Executive and Legislative branches of the Government.

Proportion of the Nation's Income Devoted to National Defense

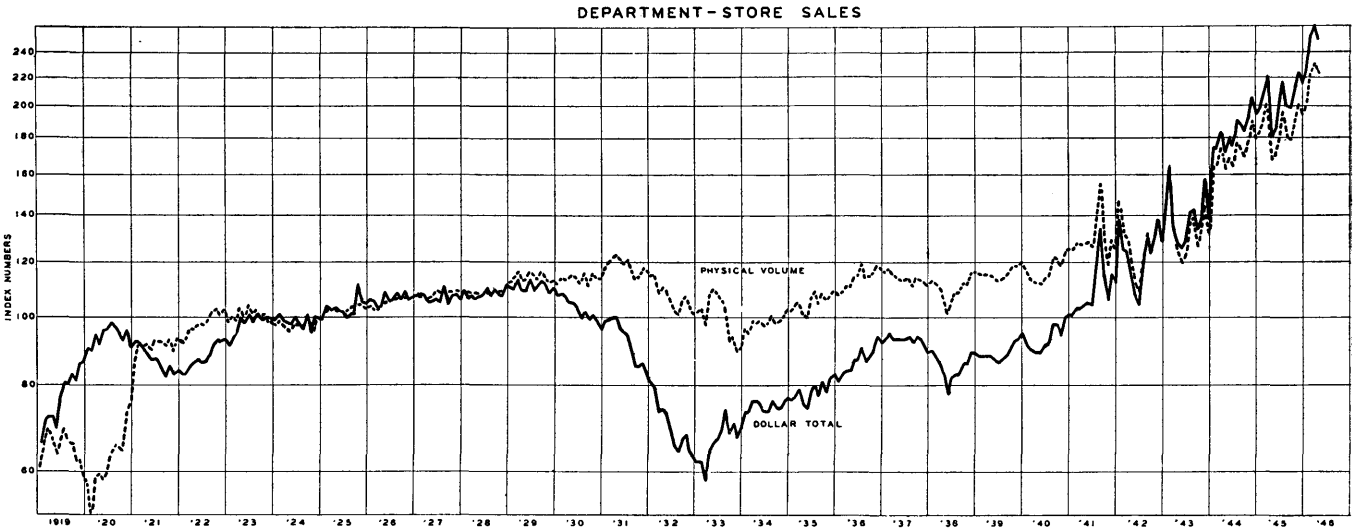
The accompanying chart presents the expenditures for national defense, expressed as a per cent of the Nation's total income payments, including payments for war activities. The data are plotted at monthly intervals for a period beginning with the outbreak of the Second World War.

PER CENT OF TOTAL INCOME FOR NATIONAL DEFENSE



The downward trend in the ratio shown on the chart that was interrupted in April after an unbroken series of monthly declines beginning in June 1945 was resumed again last month. The per cent of spending for national defense in May this year was reduced to 16.6 per cent of all income payments. This was the smallest ratio shown since September 1941.

Monthly income payments averaged about $6,000,000,000 during the first year of the war in Europe but



increased substantially after we began to assume the role of "arsenal of Democracy," and by the end of 1941 reached $9,000,000,000. After we entered the war income payments continued to increase, although the proportional change was not so great as it was during 1941. The monthly average of income payments in 1944 was $13,000,000,000, and the highest level reached was $14,388,000,000 in December, when the seasonal peak in income payments is usually reached. In 1945, the monthly average of income payments was about $13,400,000,000. This year, the average has been somewhat less than $12,000,000,000.

During 1944, expenditures for national defense were stabilized at an average level of about $7,400,000,000. This level was maintained during the first half of 1945 with the exception of two months, in which it was exceeded. Thereafter the rate of spending for national defense declined substantially.

The following statistical summary shows the expenditures for national defense for each month of 1945 and for the first five months of 1946, together with the income payments for the corresponding period:

	Expenditures for National Defense	*Income Payment*
1945	*(In Billions of Dollars)*	
January	7,551	13,357
February	6,948	12,739
March	8,246	13,686
April	7,139	13,180
May	8,156	12,835
June	7,837	14,340
July	7,324	13,523
August	6,398	12,744
September	5,365	13,450
October	5,124	13,566
November	4,224	13,046
December	4,244	14,248
1946		
January	3,417	13,047
February	2,700	12,106
March	2,550	13,086
April	2,560	12,950
May	2,094	12,600 (est.)

BUSINESS

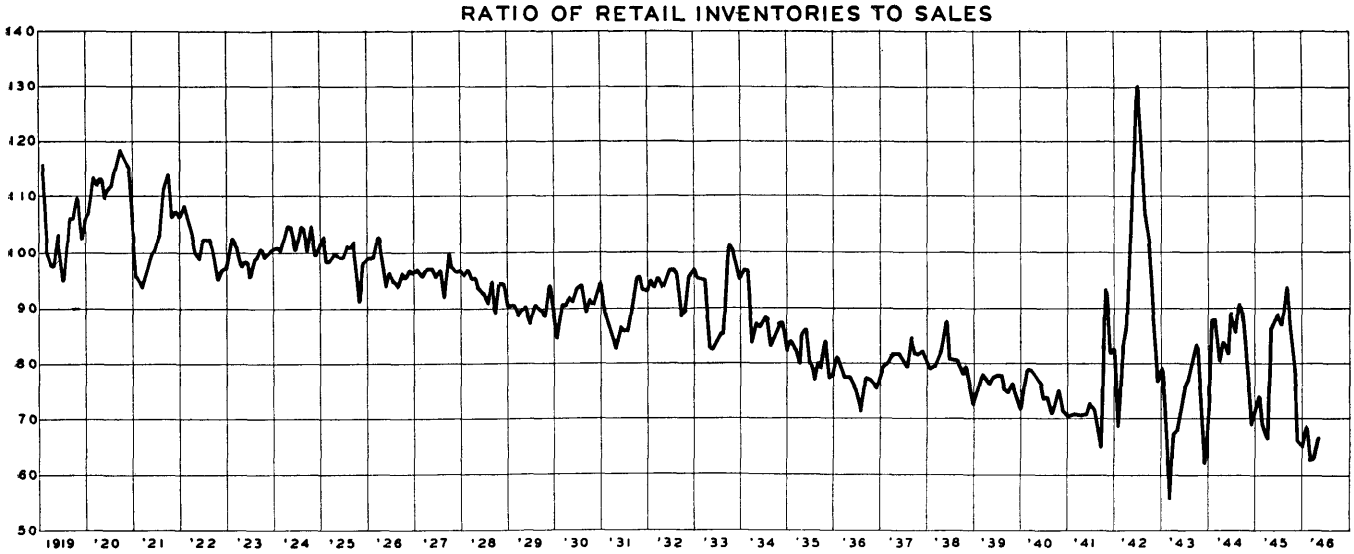
Department-Store Sales

The chart at the top of this page shows the Federal Reserve Board's index of department-store sales based on dollar volume, together with an index adjusted for changes in the average price of retail merchandise.

The buyers' strike that followed the First World War is reflected in the chart during the years 1921 and 1922, following the period when the dollar volume of department-store sales was high and the physical volume was low. In that time, store customers were observing more discrimination in buying than they did in the war period when the public was in a more extravagant mood. The wide disparity between the curve showing the dollar total of department-store sales and that for the physical volume during the depression years was especially pronounced in 1932 and 1933. At that time, merchandise in general was on the bargain counter, and those having the wherewithal to make purchases received ample value in exchange for their funds. This situation persisted to a diminishing degree until the Second World War eliminated bargains from merchants' counters.

The chart shows that the situation during the past few years is somewhat similar to that existing in 1919 and 1920; that is, the dollar volume of sales has been high in relation to the physical volume. The dollar volume of department-store sales has continued to increase and made a new high for the movement as recently as last March. The statistical series showing department-store sales primarily reflects the sales of nondurable consumer goods. There may be a decline in the series when a more satisfactory volume of durable goods is available to absorb a larger share of the family income.

The disparity between the two indexes during the past two years is far less pronounced than it was in 1919 and 1920, but we believe that the actual situation is essentially similar to that existing in the earlier period. The index of the dollar volume of department-store sales is adjusted by means of the index of retail prices prepared by the United States Department of Commerce. This index advanced about 45 per cent from January 1941 to April 1946. The index apparently reflects changes that have occurred in certain kinds of merchandise offered in the retail stores during the period under discussion. However, during these years, the lower-priced range of merchandise has disappeared from the markets, and the effect of the change in the type of goods offered for sale has greatly decreased the physical volume of goods in relation to the dollar volume in such a manner that the process is not reflected in the available price average. Consequently, the degree



of divergence of the two curves should be much greater in order to reflect the actual situation.

Ratio of Retail Inventories to Sales

The chart at the top of page 94 shows the actual volume of department-store sales expressed by dollar volume and by physical volume. The chart on this page shows the dollar volume of sales in relation to the dollar volume of department-store inventories. The ratio is derived by dividing the Federal Reserve Board's index of department-store stocks each month by the Board's index of department-store sales.

When the relationship of demand to supply in the nondurable goods markets is reasonably stable, the ratio of retail inventories to sales is relatively steady. Such a condition generally existed before the Second World War period, although fluctuations in the ratio were wider than usual in the 1919–1921 period, in 1933, and again in 1938, when there were abrupt changes in consumer demand. During these prewar years, the long-term trend of the series was downward, reflecting merchants' policy to limit stocks of goods to items likely to have a rapid rate of turnover.

The situation during the Second World War period has been considerably altered. Fluctuations in the ratio of retail inventories to sales have been far greater than they were previously, revealing an unsatisfactory demand-supply relationship. For example, the unprecedented advance in the ratio in the summer of 1942, caused by a drastic falling off in department-store sales, was followed by a reduction in inventories during the succeeding eight months to an abnormally low level. Similar, although less extensive, fluctuations occurred in late 1943, 1944, and 1945. During the early months of 1946, the ratio has been relatively steady.

	Indexes			*Indexes*	
1945	*Stocks*	*Sales*	*1946*	*Stocks*	*Sales*
June	181	202	January	157	228
July	189	218	February	159	262
August	187	200	March	164	263
September	171	200	April	162	251
October	161	213			
November	150	225			
December	141	216			

The accompanying summary of the Federal Reserve's seasonally adjusted indexes of department-store stocks and sales (on the basis of 1935–1939 = 100) shows the influences that have occasioned changes in the relation of retail inventories to sales during the second half of 1945 and during the first four months of 1946.

THE FUNDAMENTALS

Supply

The steel-ingot production rate at 76 per cent of theoretical capacity last week was 21 points higher than the rate of 55 per cent (revised) that prevailed during the preceding week. *The Iron Age* stated: "While some sources feel that the prestrike level of steel activities is from four to six weeks away, there is already evidence that the ingot output may reach 80% within the next three to four weeks. Pressure is already heavy from all types of consumers for rapid delivery in order to start a much greater reconversion activity. Most steel consumers, however, will continue to find shortages among those steel products on which the profit or return is low. This situation will tend to keep consumer inventories unbalanced for several months or until the steel industry obtains from OPA what it considers to be proper price relief. As the industry starts raising its activity to prestrike levels, it will run smack into one of the worst scrap shortages experienced since peak wartime periods. Even during the time when steel production was reduced because of the coal strike, scrap supplies throughout the country were tight. Many firms which were short of pig iron because of shutdown blast furnaces turned to greater scrap charges in order to maintain output as high as possible. While it is too early to judge the possible effects of a nationwide Maritime strike on the steel industry, a prolonged tieup involving Great Lakes carriers would eventually cause a shortage of iron ore. At the present time, substantial stocks of iron ore are in the hands of steelmakers and loaded at the docks."

	1929	*1932*	*1937*	*1938*	*1945*	*1946*
Per Cent of Capacity	96.0	22.0	75.5	27.5	90.0	76.0

(Latest 1946 weekly data; corresponding week earlier years)

There was an increase in electric-power production last week, and the loss in comparison with output for the corresponding week of 1945 was reduced from 11 per cent to 9.4 per cent. Any increase in general manu-

facturing activity is promptly reflected in the electric-power production figures. Last week's upturn in power production apparently reflects the result of increasing fuel supplies, following the termination of the bituminous-coal strike.

	1929	*1932*	*1937*	*1938*	*1945*	*1946*
Billion Kilowatt-Hours	1.72	1.46	2.24	2.02	4.33	3.92

The adjusted index of lumber production decreased from 76.4 per cent of the 1935–1939 monthly average in the preceding week to 72.2 per cent last week. Last week's index was 16 per cent lower than the index for the corresponding week of 1945. For a period of two to three months this spring, lumber operations tended to expand to a moderate extent. However, this improving trend ended two weeks ago.

	1929	*1932*	*1937*	*1938*	*1945*	*1946*
New York Times Index	131.7	38.7	96.9	65.2	87.0	72.2

Demand

During the war when demand made possible by an abnormal supply of purchasing media was exerted in markets where supply was short, price controls and rationing systems were powerless to prevent inequities in distribution. One commodity after another disappeared from the free markets. Scarce commodities could be obtained only by special influence of one kind or another with suppliers or by the payment of premiums above fixed prices. The return of peace, instead of relieving the situation, appears to have aggravated it. The Government's constant tampering with the Nation's economic system has created more and more maladjustments. Demand cannot be supplied by Government rulings. The only remedy for the situation is the return of an adequate supply of commodities.

Prices

Sensitive commodity prices advanced moderately last week, following the preceding week's sharp advance. The Dow-Jones Index of Commodity Futures closed at 115.07 on June 6 and at 116.73 on June 13.

FINANCE

Maturities of the Federal Debt

The United States Treasury is quite properly desirous of reducing the Government's short-term, interest-bearing debt. With a total of nearly $49,000,000,000 of United States Savings Bonds outstanding, which are redeemable on demand, the Treasury would be in a vulnerable position even if it had no problems in respect to refunding other issues during the next few years.

As a result of the success of the Treasury's Victory Loan campaign, Government deposits at the end of 1945 reached a total in excess of $25,000,000,000, a sum substantially in excess of its needs if the Federal budget is not adversely unbalanced to the extent that it was during the course of the war. Actually, a net deficit of $2,500,000,000 was incurred during the first five months of 1946, but this was no more than half of the average monthly deficit for the period when we were engaged in the war and will probably be reduced for the first half of 1946, after income taxes are paid this month.

Therefore, the Treasury has been able to retire short-term issues as they have matured during the past few months. The reduction in the public debt has been small in relation to the total but has been made in such a manner as to improve the Treasury's position to a somewhat greater extent than is measured by the proportion of total issues retired.

The following table shows the short-term maturities of the Federal debt and indicates the per cent of short-term issues to the total interest-bearing debt.

SHORT-TERM MATURITIES OF THE FEDERAL DEBT

January 31		*Per Cent of Total*
1936	$14,197,000,000	48
1937	13,375,000,000	40
1938	13,334,000,000	39
1939	11,538,000,000	33
1940	9,242,000,000	25
1941	8,120,000,000	20
1942	10,389,000,000	17
1943	34,775,000,000	32
1944	47,315,000,000	28
1945	69,843,000,000	30
1946	85,447,000,000	31
1946 (May 31)	80,649,000,000	30

Beginning in 1936, when short-term (within five years) maturities comprised nearly one-half of the total national interest-bearing debt, the Treasury instituted a policy of reducing short-term debt and attempted to distribute securities with some degree of uniformity over a period of two or three decades. This policy could not be maintained after we entered the war actively. As the table shows, the Treasury's refunding operations reduced the proportion of short-term maturities of the Federal debt from 48 per cent in January 1946 to 17 per cent in January 1942. During the next twelve months, the per cent of short-term maturities to the total increased to 32 per cent, and has subsequently remained slightly less than one third of the total.

During the past five months, the Treasury has reduced the Federal short-term debt by approximately $5,000,000,000. Official reports reflecting Treasury operations during the first part of June are not yet available, but data published by the reporting member banks of the Federal Reserve System show that the Treasury has continued its policy of meeting short-term maturities from its available bank balances.

In spite of the encouraging progress made by the Treasury in eliminating short-term Government issues, the commercial banks hold a substantial volume of such securities. Estimates made on the basis of reports at the end of the first week of June indicate that the commercial banks hold about $85,000,000,000 of Government issues, 41 per cent of which are Treasury bills, Treasury certificates of indebtedness, and Treasury notes, the three classes of short-term issues. It is therefore evident that the Treasury's position in regard to early maturities, although it has been improved, cannot be viewed as satisfactory.
