

AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

MASSACHUSETTS

WEEKLY
BULLETIN

February 17

1947

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Road to Industrial Peace

The serious labor disturbances of 1946 were not unprecedented in nature, although they may have been greater in magnitude and in their effects on production than the corresponding disturbances after World War I. The number of workers involved in strikes during 1946 was less than 10 percent of the total employed, compared with 20 percent of the total employed in 1919. (The effects of the 1946 strikes were comparable in many respects, however, to those of 1919.) Therefore, the 1946 record would not be so alarming, were it not for the fact that extensive Federal legislation during the 1930's was passed for the expressed purpose of ending industrial strife.

It is apparent that the Wagner Act has not accomplished its avowed purpose. However, it would be unscientific to condemn the Act in its entirety solely because of the results to date. It is necessary to consider the possibility that administration of the Act may have been at fault as well as the possibility that many features of the Act itself may be unsound.

The National Labor Relations Act is one of the more complex laws now in force in the United States. Study of the situation is further complicated by the fact that the National Labor Relations Board, established by the Act, has issued hundreds of rulings and has filled many volumes with its proceedings and decisions. Adequate analysis of this wealth of material is a task that only a legal expert thoroughly familiar with all aspects of the subject could hope to accomplish successfully.

Fortunately, that difficult task has been undertaken by Mr. Theodore R. Iserman, Member of the New York Bar. His qualifications for the task have been highly endorsed by Professor Leo Wolman of Columbia, who is one of the Nation's leading experts on unions and labor relations. The results of Mr. Iserman's analysis speak for themselves in the booklet published by McGraw-Hill entitled "Industrial Peace and the Wagner Act" (price \$1.50).

Frankly, we do not feel qualified to pass judgment unreservedly on all features of Mr. Iserman's analysis. However, we are most favorably impressed by the clarity of his exposition, the appropriate references to specific instances of the flaws discovered, and the apparently sound and unbiased character of his judgments and recommendations.

We recommend that all of our readers who desire to

be more adequately informed on this subject obtain Mr. Iserman's book. Wise remedial action probably will be taken only if enough intelligent people inform themselves and see that their knowledge and conclusions reach those in a position to act. Therefore, we believe that even those readers not directly concerned in labor-management relations will find it desirable to be adequately informed on this subject.

At a later date, we shall present our conclusions regarding certain features of the labor-management difficulties. In the meantime, for the purpose of obtaining an understanding of the problems arising from the Wagner Act and its administration, we strongly recommend Mr. Iserman's book.

Inflation or Deflation?

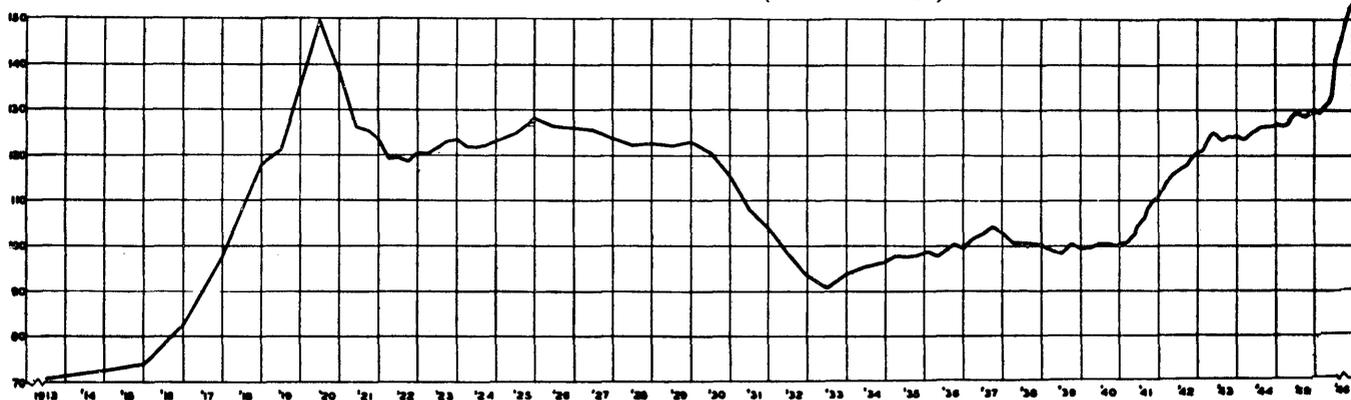
The February 5 data for the Harwood Index of Inflation reveal a continuation of the downward trend, albeit at a slightly slower rate. At 186 the index is 2 points below the figure for the preceding week and is at the level reached in mid-1944 during the long upward sweep of the wartime inflation.

The degree of inflation today is still nearly twice the maximum reached immediately after World War I, in 1919, more than twice the 1929 peak, and three times the maximum reached in 1936. Inasmuch as wholesale commodity prices are still below the 1919 peak, it would not be at all surprising if continuation of the present degree of inflation were ultimately reflected in higher prices for some commodities than the levels reached to date.

It is probable that many individuals and corporations have hoarded demand deposits (that is, they have accumulated funds in their checking accounts), because the articles desired were not readily available. Presumably, much "depreciation money" has been thus accumulated, because normal replacements of machines and equipment could not be made. Some of the funds that in normal times would have been spent for maintenance and repairs may likewise be thus held inactive for the time being.

The passage of time increases the pressure on individuals and businesses to use such funds regardless of high prices. Postponement of maintenance and replacements finally becomes seriously wasteful. Consequently, it is to be expected that the hoarded deposits that have been accumulated for such purposes will be used in the near future as supplies, labor, and replacements become available.

COST OF LIVING INDEX (1935-1939=100)



A substantial but unknown portion of the inflationary purchasing media issued during the war must have been hoarded. All the evidence, including the extent of the rise in commodity prices through 1946, confirms this belief. Therefore, such further deflation as is expected by the end of March may still leave room for further increases in the prices of some commodities as the spending of hoarded checking accounts moves heretofore inactive purchasing media into the channels of trade. In short, prices of all commodities do not yet appear to be bumping against the ceiling established by the existing degree of inflation; and it is possible that the ceiling could be lowered somewhat further than it has been since May of last year without subjecting commodity prices to an inexorable downward pressure.

SUPPLY

Industrial Production

Steel-ingot production, estimated at 93.7 percent of capacity last week, was the highest operating rate reported since May 1945. This was an increase of 1 percent over the figure reported for the previous week. However, the current week's figure is based on a revised estimate of production capacity, which is slightly less than that reported in the previous week. Based on the same capacity data, the latest figure increased only 0.3 points. The steel strike was in effect during the corresponding week a year ago.

	1929	1932	1937	1938	1946	1947
Percent of Capacity	87	27	85	31	6	94p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.77	1.75
Production (Million Tons)	1.20	.41	1.28	.48	.11	1.65

(Latest 1947 weekly data; corresponding weeks of earlier years.)

Automobile and truck production for the week ended February 8, 1947, was estimated at 90,995 units compared with a revised total of 94,114 units reported the previous week.

	1929	1932	1937	1938	1946	1947
Units (000 omitted)	116	30	72	51	24	91p

Electric-power production for the week ended February 8, 1947, increased to 4,801,179,000 kilowatt-hours from 4,777,207,000 kilowatt-hours reported the previous week.

	1929	1932	1937	1938	1946	1947
Billion Kilowatt-Hours	1.73	1.59	2.20	2.09	3.98	4.80

Lumber production for the week ended February 1, 1947, decreased contrasessionally. The New York Times Index declined 1.2 points below the index for the previous week. Production was 21.4 percent greater than in the comparable week last year.

	1929	1932	1937	1938	1946	1947
New York Times Index	137	38	79	80	79	96

p=preliminary

DEMAND

Department-Store Sales

Department-store sales for the week ended February 8, 1947, were 2 percent more than sales reported for the corresponding week last year.

PRICES

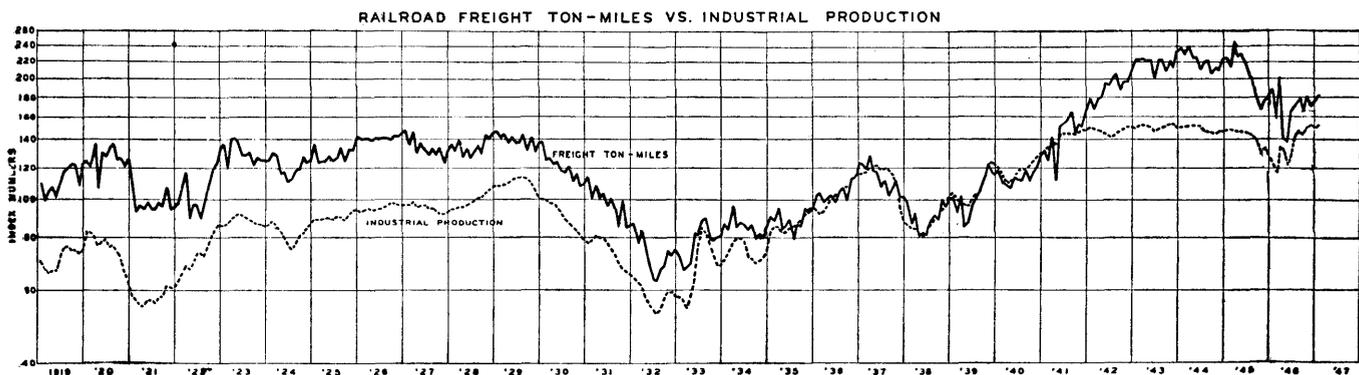
Cost of Living

The mid-December index of prices paid by consumers, compiled by the Bureau of Labor Statistics of the Department of Labor, increased 1 percent to 153 percent of the 1935-1939 average. This was the highest point ever reported in the history of the series. The December index was 18 percent above the January 1946 figure, 50 percent above prewar levels, and 115 percent above that reported in June 1913.

Changes in all six of the component indexes for December have not become available. However, preliminary reports indicate that the rise in the combined index was due principally to increases in the prices of goods and services other than food and rent. Excluding the food and rent indexes the remaining component indexes increased an average of 3½ percent during the month ended December 15, 1946. These increases substantially offset the 1-percent decline reported in the index of food prices. Decreases in the retail prices of fats and oils, fresh fruits and vegetables, and meats accounted for the lower food-price index.

In our discussion of the cost of living in the January 13 issue of these bulletins we explained that food prices probably reached the peak in November. Lower prices of meats and fresh fruits and vegetables sold at wholesale indicated that decreases in retail prices after November were probable. Inasmuch as food prices at wholesale continued to decrease until recently, a further decline in the index of retail food prices probably occurred after December 15.

The International Labor Office has compiled cost-of-living data for 17 nations. This survey revealed that the cost of living in the United States has increased 48 percent since 1937, which was taken as the base year. (The differences in base-year averages make direct comparisons of the ILO data with the BLS data impossible.) The rise in this country was relatively moderate compared with the increases reported in Hungary, Japan, China,



and other far eastern and Latin American countries.

In Hungary living costs in May 1946 rose to 235,795,000 times what they were in 1937. The ILO discontinued its compilations for this country because of the almost hourly fluctuations there. By the middle of 1946 the cost of living in Japan and China had increased 48 and 2,300 times, respectively. In France the increase was 800 percent, and in Rome the gain was 1800 percent.

The future trend of living costs is still uncertain. Increased rents appear to be inevitable. Food prices probably will continue the December trend, at least during the months of January and February, but the recent increases in the wholesale prices of some foods suggest that another upward movement may occur. The future of food prices will depend on the harvests both in this country and abroad during the current year. Frosts in Florida have already caused a rise in some fruit prices. A severe winter in Europe may result in an increased demand for food exports. These factors plus Government support may keep food prices at high levels. Prices of clothing probably will change little; although increased quantities and improved quality may indirectly lower prices. There appears to be no immediate prospect that fuel prices will decrease.

The trend of the combined index may depend largely on the movements of food prices. Substantial decreases in this component of living costs could offset further increases in other components thus causing a decline in the combined index. However, it is not yet certain that the peak for food prices has been passed; if the recent declines in food prices prove to be temporary, the cost of living may be higher before many months have elapsed.

Commodities at Wholesale

The price index for commodities at wholesale based on spot-market prices of twenty-eight basic raw materials was 309.2 on February 13, compared with 310.0 a week earlier. The Dow-Jones Index of Commodity Futures was 124.01 on February 13, compared with 122.81 reported the previous week.

BUSINESS

Freight Ton-Miles vs. Production

Our preliminary estimate of freight-ton miles for January reveals an increase of 3 percent during the month. At 182 percent of the 1935-1939 average the January index was 5 percent below the figure reported in the same month last year but was at the highest level since March 1946. Revisions in the data for November and December increased the indexes we previously reported

for those months. The extent of these revisions can be determined by comparing the accompanying chart with that published in the January 20 bulletin. It will be noted that a substantial revision was made in the December index; the preliminary data indicated that a decrease in freight traffic had occurred.

In discussing the trend of freight traffic last month (January 20 bulletin), we pointed out that the gap between the trends of freight traffic and industrial production seemed to be decreasing. However, the more recent data suggest that the greater relative gain of freight traffic may continue.

The railroads have been handicapped by inadequate equipment, so that some freight that normally would be handled by the railroads may have been shipped by other means. If that has occurred, the railroad-traffic outlook is even better than the present figures indicate. This year may be one of the most profitable that the railroads have ever experienced.

Freight-car manufacturers are being allotted enough steel to produce 7,000 cars per month. However, only a part of this allotment is being received. Increased production of cars is expected during the next few months, but it is questionable whether replacements will offset the scrapping of old equipment.

Carloadings in January were 5 percent more than they were in December and 10 percent more than carloadings in the same month last year. The greatest number of carloadings ever reported for a January was the 3,858,000 total for January 1942. Carloadings last month were only 2½ percent below this wartime peak and were 15 percent more than the total for January 1941.

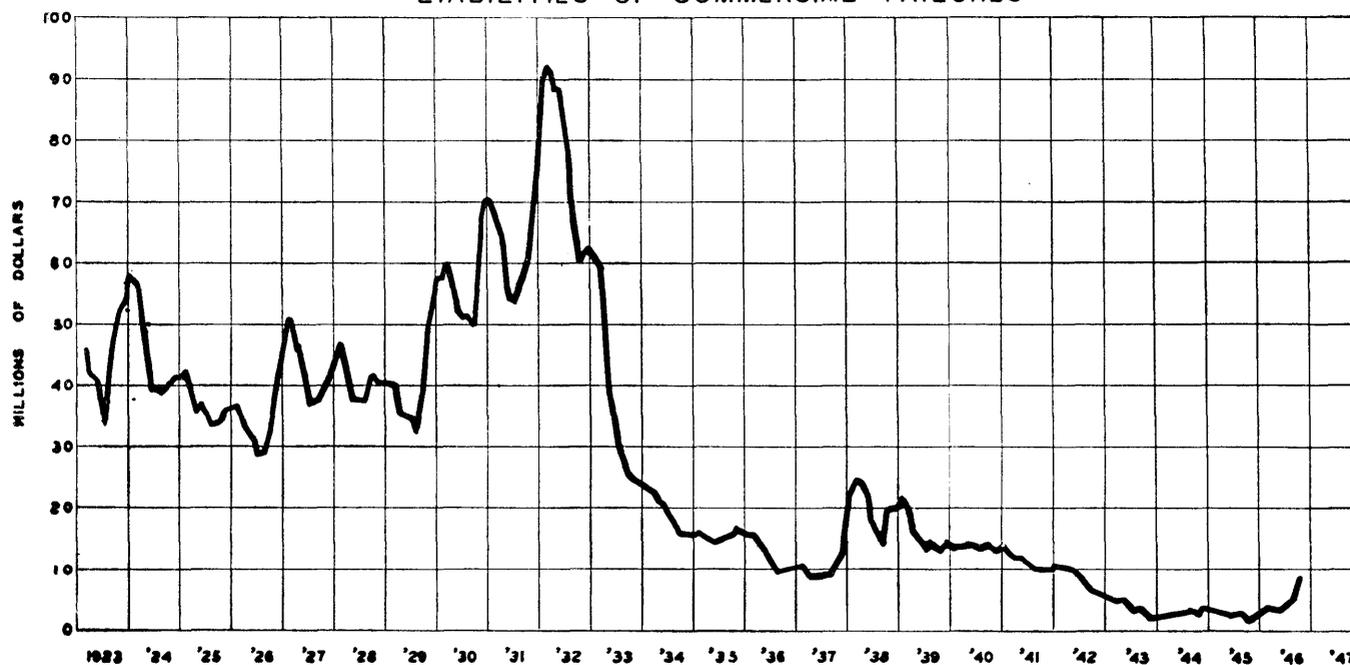
The Trend of Commercial Failures

Since the chart of liabilities of commercial failures was last published, the method of portraying this series has been revised, and the period covered has been extended. Previously this series was that published by Dun and Bradstreet, and it included the value of total liabilities reported for defunct organizations during the period 1939 to 1946. Marked fluctuations occurred from month to month, which made it difficult to determine the long-term trends.

We have eliminated most of the erratic month-to-month fluctuations by compiling a 5-months' moving average of the same series. Comparison of the accompanying chart with that on page 12 of the January 20 bulletin will reveal the changes thus effected. The period 1923 to 1939 has been added to facilitate comparisons over a longer period of time.

A question arises as to whether it is more advantage-

LIABILITIES OF COMMERCIAL FAILURES



ous to use a 5-months' moving average or a 3-months' moving average. In our studies we have found that the 5-months' average improved comparisons in the period 1923 to 1932, but that the 3-months' average was better for the period since 1932. After further study and improvement of the data it may be found that the 3-months' moving average will be more advantageous to use hereafter.

There is a disadvantage in using any moving average, however, and that is the lag in significant indications that may occur. For example, the latest figure available is that for December 1946. In a 5-months' average, plotted in the middle month of the 5, the latest figure is included in that for October plotted on the accompanying chart. Thus the usefulness of this method is impaired, because the indications do not appear on the chart as soon as they are available. One advantage of a shorter average is that the lag is reduced.

It will be noted that failures remained at a much lower level during the late 1930's than during the more prosperous 1920's.¹ This seemingly paradoxical situation provides a valuable lesson on the functioning of our economic system. Why was it that, although failures were more than twice as great during the years of prosperity, unemployment was negligible in comparison with the situation during the late 1930's.

It might be supposed that many failures would create extensive unemployment, for obvious reasons. However, the large number of failures during the 1920's reflected only the usual percentage of failures among a relatively large number of new corporations. Apparently, the existence of conditions encouraging to enterprise induced so many individuals to embark on new ventures that the increased employment thus made available more than counterbalanced the losses of jobs in bankrupt businesses. It seems equally obvious that conditions in the late 1930's were less conducive to initia-

tion of new enterprises and that a substantial portion of the unemployment during those years resulted from that circumstance.

Failures in 1937 were at the lowest level since the beginning of the series. Presumably that year was one of favorable business activity and prosperous times. This was followed by the depression in 1938 with an accompanying increase in failures. From 1939 to 1941 the failures data were relatively stable.

Comparison of the latest data with that during the 7-year period preceding the war reveals that liabilities of commercial failures have not increased to prewar proportions as yet. With the number of new businesses increasing each month, it is reasonable to expect the number of failures to increase. (New businesses increased substantially in the months following the war.) Failures, however, have remained relatively few.

The number of failures during January increased 52 percent and was at the highest level reported since the end of the war. December liabilities of defunct organizations were 40 percent more than those reported for November and were at the highest level reported since 1939. However, the December failure record was nearly the same as the average monthly rate from 1935 to 1940, inclusive. January liabilities probably will be larger.

COMMERCIAL FAILURES, NUMBERS AND LIABILITIES

	<i>Number of Failures</i>			<i>Liabilities of Failures</i> (000 omitted)		
	1945	1946	1947	1945	1946	1947
January	80	80	235	\$5,883	\$4,372	\$—
February	66	92		1,557	2,983	
March	85	86		3,880	4,421	
April	90	81		980	3,785	
May	72	92		2,208	3,656	
June	61	69		3,198	3,006	
July	72	74		3,659	3,434	
August	56	92		1,166	3,799	
September	64	96		1,658	4,877	
October	62	123		3,114	6,400	
November	60	104		1,268	12,511	
December	42	141		1,824	17,105	
	810	1,130		\$30,395	\$70,349	

¹Minor changes in the coverage of the data account for only a small part of the great difference indicated.