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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Dangerous Economic Analysis*

The Vice-chairman of the President's three-man Council of Economic Advisers has recently offered economic advice to the people of the United States in an article that has been given wide distribution.<sup>1</sup> Inasmuch as there is no accompanying assertion that Mr. Keyserling is giving his personal views rather than those of the Council, it seems reasonable to assume, especially in view of several statements in the article, that he is speaking for the Council. If such is the case, the President's Council of Economic Advisers may seriously mislead Mr. Truman and the American public. If Mr. Keyserling's assertions are accepted at face value by those in authority to act, or are used as a basis for obtaining authority to act, great harm may result.

Mr. Keyserling asserts, "A majority [of economists] would agree that, if a recession should come, it would be shorter and milder than the one which started in the second year after World War I and that there would then be a few years of high prosperity. Most significant, a large majority would think this: unless substantial changes in popular attitudes and economic practices occur, the new prosperity era will be followed within 3 to 10 years by a depression which might be as much larger than the one commencing in 1929 as the second World War was larger than the first." (Italics supplied.)

In the first place, we know of no consensus of opinion among qualified and experienced economists that there is an adequate scientific basis for believing that a recession in the near future will be less severe than that of 1920-21. It should also be noted that that "recession," as Mr. Keyserling calls it, was not a recession, either according to his own definition or by comparison with most depressions of the past century; on the contrary excluding that of 1929-32, the 1920-21 depression was one of the most severe of the present century and has long been classified as a major cyclical depression by the National Bureau of Economic Research.<sup>2</sup> However, Mr. Keyserling's second assertion to the effect that a "large majority" think there will later be a "depression as much larger than the one commencing in 1929 as the second

World War was larger than the first" is even more seriously misleading. We are reasonably sure that his assertion is simply not true; we are confident that relatively few qualified economists would make any such extreme prediction.

Mr. Keyserling also says, "While all economists do not agree as to all the causes of the last depression, a listing of the causal factors generally agreed upon indicates that many of these factors are again present now or will be present within a few years." He then gives six of these factors, which are commented on below.

The first is that there is a "... tendency of our productive capacity to outrun our mass buying power . . ." Now it is simply not true that economists generally agree that this is a causal factor of the last or of any depression. Debate on this aspect of the subject can be found in all economic journals. Perhaps it would be true that most of the followers of the Keynesian theories would agree, but those economists represent only one school of thought, one that has appealed strongly to immature intellects not well acquainted with the history of the spend-for-prosperity notions. Many of the Nation's leading economists have made clear in no uncertain terms that they do not agree with the basic idea involved.

Second, Mr. Keyserling cites "... the chronic weakness of such bellweather industries as residential construction . . ." Many economists probably would agree that the failure of residential construction to recover rapidly was one of the interesting features of the postdepression period in 1933 to 1938 inclusive, but few would agree that this was a causal factor of the 1929-1932 depression.

Third, Mr. Keyserling cites the "... seeming reluctance of capital investment to expand as dynamically as it once did . . ." This likewise was noteworthy in the postdepression period, but the record of such expansion to and including 1929 would seem to rule it out as a cause of the depression.

Fourth, he mentions "... uncertain elements of foreign trade . . ." In view of the relatively small magnitude of our foreign as compared with our domestic trade, it is difficult to imagine what he had in mind in making this assertion.

Fifth, he points to "... the enormous disparities in the price and wage structure and the huge differentials in the enjoyment of national income whether measured by regions or by individuals." Again it simply is not true that there is general agreement on this as one of the causal factors of the last depression. As far as we

<sup>1</sup>"Must We Have Another Depression?" by Leon H. Keyserling, *The New York Times Magazine*, June 8, 1947.

<sup>2</sup>The painstaking and scientific classification of such economic developments published in "Business Annals" by Willard L. Thorp and Wesley C. Mitchell is the standard guide on the subject.

know, only those who are adherents of the "purchasing-power" school of thought would agree with Mr. Keyserling.<sup>3</sup>

Sixth, Mr. Keyserling asserts that, "Above all, the country as a whole has not yet adopted and put into action a fully rounded anti-depression program." With this statement, of course, nearly all economists would agree, from those who believe that too many interferences with free competition already exist to those who believe that the Government should be given far more control than it has at present. But many of Mr. Keyserling's readers may assume that there is general agreement among economists as to what would constitute a "fully rounded anti-depression program." There is no such agreement; in fact, many if not most of the careful and consistent followers of the scientific method in the economic field agree that they do not yet know whether a "fully rounded anti-depression program" can be formulated or what its principal features should be.

The contrast between the facts mentioned above and Mr. Keyserling's assertions leads to grave apprehension. It is difficult to believe that Mr. Keyserling is ignorant regarding the current status of scientific progress in the economic field; therefore, we fear that his interest in some particular panacea has led him to disregard facts that he must have once known or can readily ascertain. If this is the case, it is a most dangerous situation. It is time to reconsider, before the logical consequences of Mr. Keyserling's basic assumptions carry us much farther afield than would any of the recommendations given in the article under discussion. The President and the public should know that the Council of Economic Advisers, if Mr. Keyserling has adequately presented its views, is using for its analyses certain basic assumptions that may be a quicksand foundation for their structure of economic analysis.

### ***Inflation or Deflation?***

Further minor revisions of the Harwood Index of Inflation have been made during the past week. Their net effect was to increase by 1 point each the April and May indexes to 189 and 188, respectively. The index based on data for June 4 is 190, an increase of 2 points during the week.

Although further gains in the weekly index are expected for the weeks ending June 11 and 18, the deflationary effects of income-tax payments immediately thereafter probably will cancel the gains. By late July, the Treasury's collections presumably will force a decline below recent levels, thus ending the stalemate between inflationary and deflationary influences that has continued since February.

### ***Revision of the Wagner Act***

The 1947 revisions of the Wagner Act are intended to remedy many of the abuses of privileges granted the

<sup>3</sup>This does not imply that all other economists consider a great disparity of incomes desirable, but it is one thing to argue that some people receive far more than they contribute to production, and it is something else again to argue that those who receive large incomes do not spend them and thus "cause" depressions, which could be prevented by taxing part of the income away from such individuals and having other people spend it. The latter point of view is that held by the "purchasing-power" school, with which Mr. Keyserling has chosen to identify himself and, by implication, the Council of Economic Advisers.

unions. Inasmuch as some of the abuses had arisen as a result of the manner of administering the act, certain of the revisions are for the purpose of correcting maladministration. However, the principal revisions obviously are intended to restore something like a balance of power between management and labor.

For example, the Wagner Act had all but made it impossible for employers to present their viewpoints to employees. The revised law restores the right of free speech to employers as long as they do not attempt to intimidate or influence the employees by threats.

Jurisdictional and sympathy strikes are prohibited. In order to make this provision effective, the unions may be sued for damages attributable to illegal strikes and contract violations.

One of the most important departures from the general aim of the Wagner Act is the banning of the closed shop. The so-called union shop is still permitted, but prospective employees will no longer have to join a union in order to be eligible for a job.

The National Labor Relations Board, in administering the Wagner Act, rode rough-shod over the rights of employee minorities. The revisions provide that minority craft and professional employees may choose their own bargaining agents, and that any substantial group of employees may demand a new vote if their question that the union satisfactorily represents them.

Supervisors having the right to "hire and fire" are excluded from the provisions of the Wagner Act. Although intended to settle the much-disputed status of foremen, it is not at all certain that this will be the result.

A Federal Mediation Service is established that will replace the Conciliation Service.

Special provision is made for postponing by injunction any strikes that would imperil the public health or safety. During the period of postponement, a board of inquiry is required to make an investigation and, at the end of 60 days, report on the current position of the parties involved, including a statement of the employer's last offer. Within 15 days thereafter, the National Labor Relations Board is required to take a secret ballot of the employees concerned on the question whether they wish to accept the employer's final offer. The injunction against the strike will remain in effect until the results of such balloting have been determined, unless a settlement is reached earlier.

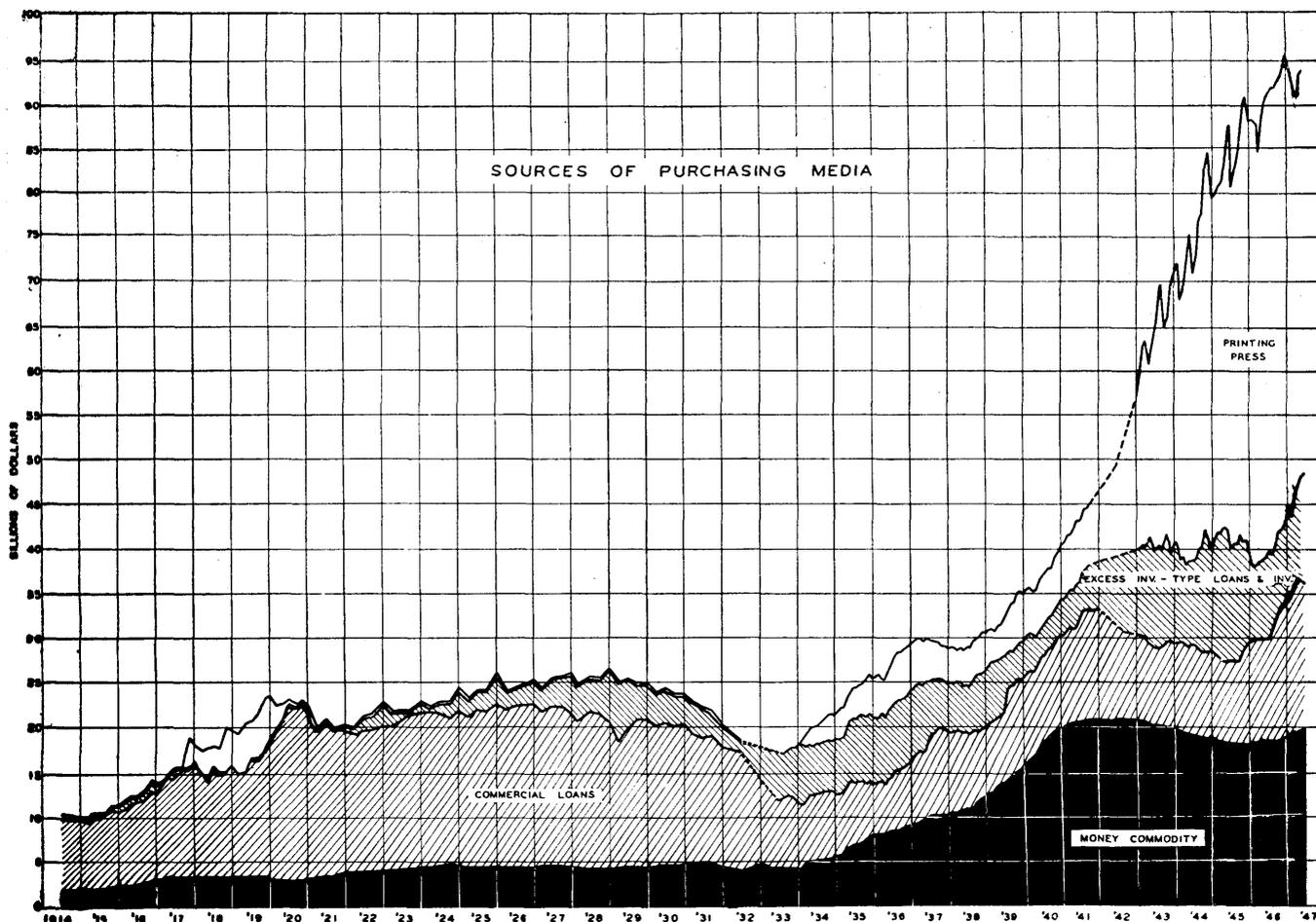
It will be noted that the employees are still free to strike when the injunction is terminated, and that industry-wide bargaining is not interfered with by any of the changes made in the Wagner Act. Thus, great monopoly powers will remain in the hands of the unions, powers that management may be all too willing to share, in some instances, at the expense of consumers.

Primarily for this reason, we doubt that the latest attempt to regulate labor-management relations will prove to be satisfactory in the long run. The issue of monopoly power has not been settled, and it is only a question of time, perhaps not too long a time, before some labor leader will deem it expedient to abuse that power.

## **SUPPLY**

### ***Industrial Production***

Steel-ingot production, estimated at 96.5 percent of capacity for the week ended June 14, 1947, was approx-



imately 2 percent more than production in the preceding week and was 21 percent greater than production in the corresponding week last year, when the industry was recovering from a coal strike. The supply of steel scrap has increased slightly during recent weeks, but some sources report that the quality of scrap has been poor.

	1929	1932	1937	1938	1946	1947
Percent of Capacity†	97	18	76	27	76	97p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.77	1.75
Production (Million Tons)	1.34	.27	1.15	.42	1.35	1.70

Automobile and truck production for the week ended June 7, 1947, was estimated at 98,643 vehicles, compared with a total of 77,843 vehicles for the previous week. The supply of scarce materials has improved somewhat during the past week.

	1929	1932	1937	1938	1946	1947
Vehicles (000 omitted)†	125	50	103	27	43	99p

Electric-power production for the week ended June 7, 1947, increased to 4,635,218,000 kilowatt-hours from 4,429,109,000 kilowatt-hours reported for the previous week when industrial production was curtailed on the holiday.

	1929	1932	1937	1938	1946	1947
Billion Kilowatt-Hours†	1.70	1.38	2.13	1.88	3.92	4.64

Lumber production for the week ended May 31, 1947, decreased. *The New York Times* index declined 9.9 points below the index for the previous week, but was 6.9 points above that reported in the corresponding week last year.

	1929	1932	1937	1938	1946	1947
<i>The New York Times</i> Index†	120	39	96	79	72	79

p=preliminary  
†Latest weekly data; corresponding weeks of earlier years

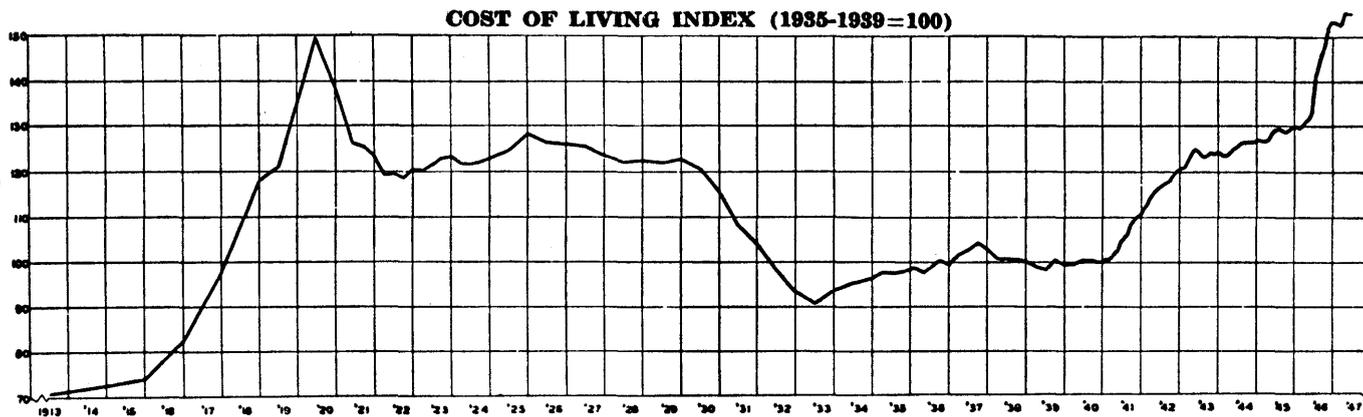
## DEMAND

### *Purchasing Media*

The purchasing media available to the public increased further during May to \$93,986,000,000, not far below the all-time high reached last December. The trend thus far in 1947 is so much like that of 1945 and 1946 that further gains to a new peak would not be surprising. This is especially probable if the income tax reductions are approved by the President. However, if income taxes remain at present levels for the remainder of 1947, less rather than more purchasing media probably will be in circulation by the end of the year.

There was an increase of \$153,000,000 in the purchasing media derived from gold during the month. If the Treasury continues to use the devaluation profits, further increases totaling about \$1,000,000,000 may occur during the next several months.

Purchasing media derived from the second source, commercial loans, decreased nearly \$450,000,000 during May. This was 3 times the rate of decrease recorded in April and was the second successive month of decreasing commercial loans. This suggests that some progress is being made in the liquidation of inventories that were unbalanced or excessive. However, it is too early to



conclude that the decline is more than seasonal.

Small gains in real-estate and installment loans and a large increase in loans on securities were primarily responsible for a gain of nearly \$700,000,000 in the total of purchasing media from the third and fourth sources. Apparently, a substantial part of this increase was attributable to the transfer of funds from foreign borrowers to American business firms, presumably as payment for goods purchased in this country.

At present, there is a lull in the insistent demand for goods that characterized all markets at this time last year. Manufacturers have far more nearly adequate supplies of raw- and semi-manufactured materials; wholesalers have been able to accumulate normal inventories of many items and a surplus of some; retailers in general have adequate and in some instances excessive inventories; and the most urgent needs of most consumers have been met. However, consumers generally, including corporate consumers of new plants and equipment, have purchasing media that they can use when and if they desire to do so. Many, both individual and corporate, have postponed less urgent purchases in the confident expectation that a depression would soon provide opportunities to use their funds to better advantage. That has been one result of the widespread publicity given the recession that seems to have begun.

It is possible that the recession will not be so extensive as many hope and expect. As long as so much of the huge quantity of inflationary purchasing media remains available for use (that is, as long as the deflation is neither drastic nor prolonged) a resumption of the boom will be possible. And if that does occur there will be many who will "miss the boat." Those who are expecting a recession, at least, will not take advantage of a mere leveling-off of an upward trend; and those expecting a depression will not take advantage of a moderate recession. Furthermore, if most of those now shrewdly awaiting lower prices for securities, houses, commodities, new plants, and equipment ever became convinced that their opportunity is quickly passing, there may be another rush like that of the immediately post-war boom.

Fortunately, there are enough potentially disturbing influences so that the possibility of a boom piled upon the remains of the present boom seems rather remote. The uncertainties of a presidential-election year, the European mess, and Mr. Lewis, to mention a few, are potentially discouraging influences. Nevertheless, the continuing existence of the huge quantity of available pur-

chasing media leaves ajar the door to another period of even more unhealthy boom.

### ***Department-Store Sales***

Department-store sales for the week ended June 7, 1947, were 7 percent more than sales reported for the corresponding week last year.

### **PRICES**

#### ***Cost of Living***

The cost of living decreased slightly during the month ended April 15. The Department of Labor's index of prices paid by consumers, which probably is the most accurate indicator of the cost of living, was slightly less by mid-April than the mid-March index, but was still well above any previously reported figure. At 156.1, the index was 19 percent above the level reported a year ago.

The recent informal debate between Mr. Truman and Mr. Taft has again emphasized some of the factors responsible for the high cost of living. However, neither of the debaters chose to mention the huge volume of inflationary purchasing media created during the war years. Without this means of making the extraordinary demand for goods effective in the market places of the Nation, none of the secondary influences mentioned by Mr. Truman and Mr. Taft could have more than a minor and temporary influence.

It follows that dealing with the secondary factors will not have a permanent effect on the cost of living. Unless there is drastic deflation (cancellation of inflationary purchasing media now in existence), any reduction in the cost of living during the immediate future will be temporary. Present indications are that the deflation to be expected will be so gradual that the cost of living will remain high, perhaps after a temporary setback, for some time to come.

#### ***Commodities at Wholesale***

The price index for commodities sold at wholesale based on spot-market prices of 28 basic raw materials was 300.8 on June 12, compared with 300.2 a week earlier.

The Department of Labor's weekly price index of commodities sold at wholesale in primary markets (this index corresponds with that reported in each monthly bulletin) was 211 on June 7, compared with the same figure a week earlier.

The Dow-Jones Index of Commodity Futures was 125.70 on June 12, compared with 125.63 a week earlier.