

AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

MASSACHUSETTS

MONTHLY
BULLETIN

June 28

1948

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Eightieth Congress

Two aspects of the work done by the Eightieth Congress have major economic significance. In the first place, the continuing effects of several important measures adopted will influence economic developments both here and abroad; secondly, the work of the Eightieth Congress presumably is to some extent an indication of the legislative trends to be expected until the next turn in the tide of popular opinion.

One of the most important actions of Congress, from the economist's point of view, was the removal of nearly all the emergency and wartime controls over the Nation's economic life and the steadfast refusal of Congress to authorize a resumption of price and other controls. The absence of such controls will continue to facilitate the necessary adjustments to peacetime economic relationships.

Nevertheless, by extending through 1949 the period during which supports for the prices of farm products will be continued at present levels, Congress has virtually assured the general public that there will be no major reduction in the family grocery bill for some time to come. This is not the stated purpose of the farm bill, and the individual legislators no doubt hope that the farmers who understand the supposed advantages they are given will outnumber at the polls the consumers who understand the disadvantages of the measure from their point of view. However, the long-term effects of this legislation may be most adverse to the farmers themselves. The potato growers of Maine have already protested that the support program has encouraged increasing production by the marginal farms. Similar developments with respect to other major crops may make the price-support program a far greater problem than any that has occurred in the history of American agriculture.

On the other hand, extension of the Reciprocal Trade Act by a Republican Congress was a reversal of the direction taken by the last Republican Congress when it approved the Smoot-Hawley Tariff Act. The basic economic principles involved are the same as those that justify, in our opinion, the action of Congress in refusing to continue price controls. Although the various attempts to support the prices of agricultural products have, in effect, extended to farmers some of the special privileges granted to certain manufacturers by the pro-

tectionist tariff, abandonment by the Republican party of the old protectionist fallacies (as indicated by the platform just adopted) may be another step toward restoration of free markets within the United States. If so, economic progress will be fostered.

The Economic Cooperation Act of 1948 has already been discussed at length in these bulletins. Although we have emphasized that great economic benefits may be derived from this measure, there will be no basis for predicting them until the conditions precedent to aid are firmly established by the Economic Cooperation Administration.

The Taft-Hartley Act apparently was a major step in the furtherance of better employer-employee relationships. That it did not solve the problem of monopoly power in various unionized industries has become obvious. However, the fact that Congress dealt with the problem as effectively as it did in the year preceding a Presidential election suggests that the next Congress may do even better. At least, virtual control of the National Legislature by the trade unions, as is the situation in England, seems improbable in the foreseeable future.

By reducing individual income taxes, Congress restricted substantially the Treasury's power to cope with inflationary developments. However, we believe that the actual curtailment of Government revenue will be less than is generally expected. Although reduction of the Federal debt is most urgently desirable, the burden of taxes was great. Furthermore, under present conditions a large Treasury surplus may encourage expenditures rather than debt retirement. If the only way of forcing economy is to give the Government less money to spend, tax reductions at least have this virtue.

The congressional action in strengthening the national defense will have continuing economic effects, especially on the aviation industry. If the rate of spending for this purpose increases, an unbalanced budget and more inflation may result. However, that development is not indicated by the action taken to date.

The economic effects of universal military training would have been substantial. Although the draft bill was a highly controversial political question, its economic significance is negligible, unless the peacetime

To Subscribers: We appreciate very much the trouble that so many subscribers have taken to mail the post cards recently supplied in order to give us their views regarding a summary. Nearly 30 percent of the subscribers have already replied. We shall wait 2 weeks before tabulating the replies, which are still coming in, and shall then give a brief report on the results and take appropriate action.

draft of men is subsequently used as an excuse for the peacetime draft of industry and business profits. If the next Congress is like the Eightieth, however, it probably will not be sympathetically inclined toward such proposals.

Failure of Congress to enact a long-range housing program has been generally criticized. However, residential construction this spring is proceeding at the fastest rate in the Nation's history. We see no reason to believe that the Federal Government can do anything at this time to increase the rate of construction substantially, and aid to housing that further liberalized the credit terms for mortgage loans would have inflationary effects. Therefore, we believe that Congress was wise to put aside the Taft-Ellender-Wagner Housing Bill.

The Eightieth Congress took no action to cope with the serious inflation that exists in the United States. However, that is primarily a money-credit problem, and the Federal Reserve Board was supposedly made responsible for appropriate action in this field. The fact that the Board has bowed to Treasury domination is certainly not the fault of Congress. Only a thorough investigation of the whole subject by an independent monetary commission can be expected to yield the best information and recommendations as a basis for congressional action. In view of the responsibility of the present Administration for the situation that now exists, Congress may well have been reluctant to initiate an investigation while the Administration remains in a position to thwart such an investigation.

From the economist's point of view, much of the foregoing record of the Eightieth Congress is disappointing. Even the little economic knowledge that has been scientifically established was sometimes ignored. Considered in its entirety, however, the record does provide grounds for hope. At least, the United States has not continued since the war to multiply controls and in general increase the economic power of the Government as has been done in England and some other nations of Europe. As long as we do not voluntarily put on the straight-jacket of socialism, there is always the chance that by retaining freedom of action we shall find sound solutions to the economic problems of our times.

SUPPLY

Industrial Production

For the second consecutive month industrial production increased in June to a level slightly below that preceding the coal strike in March.

Our index of industrial production, adjusted for long-term trend, increased nearly 2 percent in the first half of the month, the period on which the latest figure is based. The index is now less than 2 percent below this year's high reported in February and is nearly 1 percent more than that for June 1947.

The coal strike in March and April of this year forced industry in general to restrict operations, and only in the last week or two have operations recovered to prestrike levels. Other strikes also contributed to curtailment of industrial activity, especially in the automobile industry.

Steel-industry officials have reported that the demand for certain types of steel by producers of radios, household appliances, commercial equipment, locks, builders' hardware, oil burners, automotive accessories, and steel containers has decreased. Furthermore, the rush to

buy heavy steel products in order to place orders ahead of those expected from the beneficiaries of the Economic Cooperation Act has subsided. However, demand for steel by other users apparently will require operations at or near capacity for some time to come.

The situation in some of the consumer-goods industries is less reassuring. If the department stores and other retail outlets are not able to move present inventories without taking serious losses, orders for fall merchandise will be curtailed further and the industries concerned will have to reduce operations. Now that the inventory "pipe lines" are filled again, in some instances to overflowing, only drastic price reductions will make possible a prolonged continuation of the recent rates of production.

Latest Weekly Data

Steel-ingot production, scheduled at 96.2 percent of capacity for the week ended June 26, 1948, was slightly more than output in the preceding week and was 4 percent more than production in the corresponding week of last year.

	1929	1932	1937	1938	1947	1948
Percent of Capacity†	95	15	75	29	96	96p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.75	1.80
Production (Million Tons)	1.31	.23	1.17	.45	1.67	1.73

Automobile and truck production during the week ended June 19, 1948, in the United States and Canada was estimated at 107,249 vehicles, compared with a revised total of 109,831 reported for the previous week. Greater production in Ford and Chrysler plants offset most of the 8,400 unit decrease in the Michigan assembly plants, which were shut down.

	1929	1932	1937	1938	1947	1948
Vehicles (000 Omitted)	127	53	112	42	103	107p

Electric-power production during the week ended June 19, 1948, increased to 5,159,255,000 kilowatt-hours from 5,131,811,000 kilowatt-hours reported for the previous week.

	1929	1932	1937	1938	1947	1948
Billion Kilowatt-Hours†	1.70	1.44	2.21	1.99	4.67	5.16

Lumber production during the week ended June 12, 1948, increased. *The New York Times* seasonally adjusted index was 10.2 points above the index for the previous week but was 7.1 points less than that reported in the corresponding week last year. Floods in the northwest areas, a strike of boom men, and early vacations have hampered the lumber industry for the last several weeks.

	1929	1932	1937	1938	1947	1948
<i>The New York Times</i> Index†	123	40	96	81	88	81

p=preliminary

†Latest weekly data; corresponding weeks of earlier years

*Week included a holiday

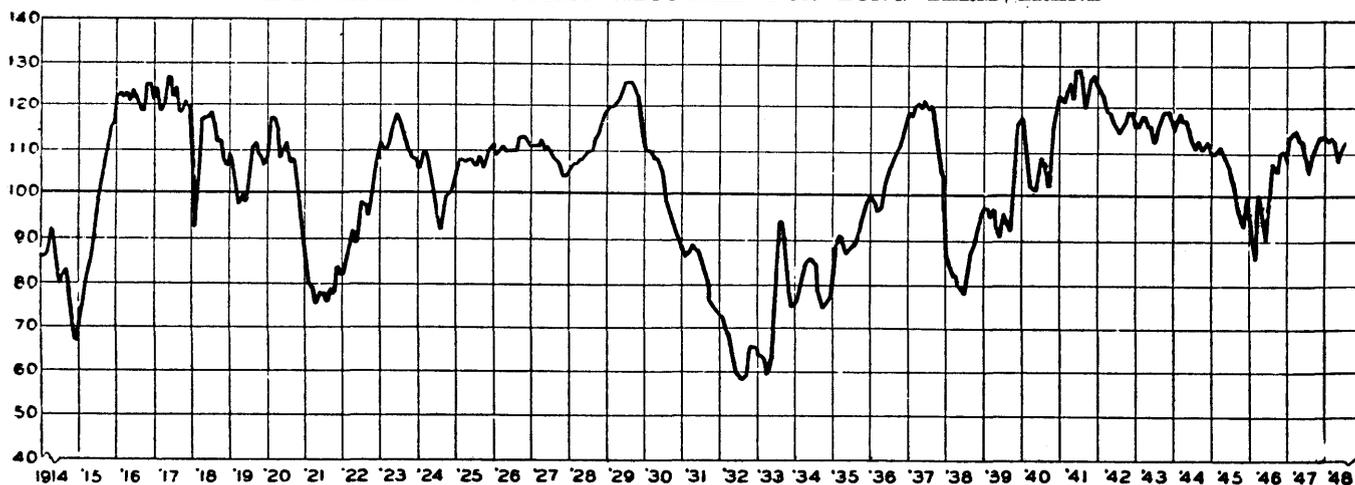
DEMAND

The Harwood Index of Inflation

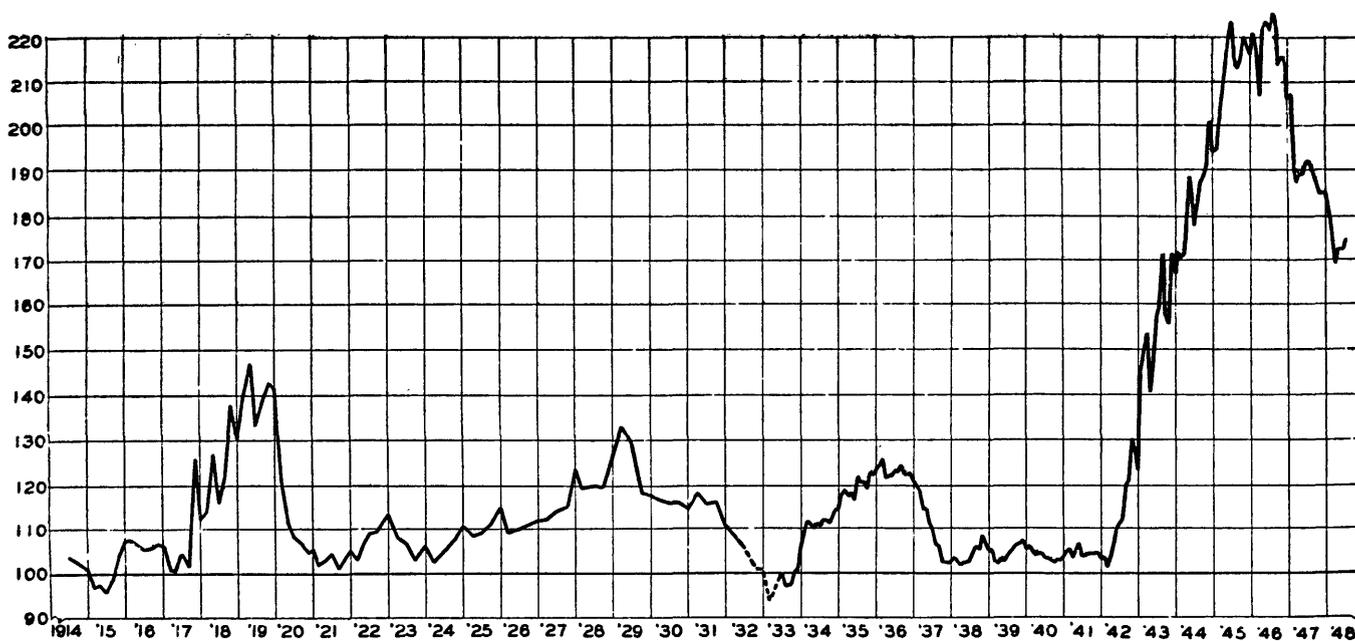
The upward trend of the index of inflation that began in April was resumed in the first 2 weeks of June. The preliminary index for the month (based on data for July 16), at 176, was 3 points above the final May figure and was 6 points above the low reached in March.

However, present indications are that the final June index will be lower than the preliminary figure. Although Treasury receipts barely exceeded expenditures during the first 2 weeks of the month, the quarterly tax payments collected after June 15 provided a large surplus over expenditures in the succeeding 10 days. Un-

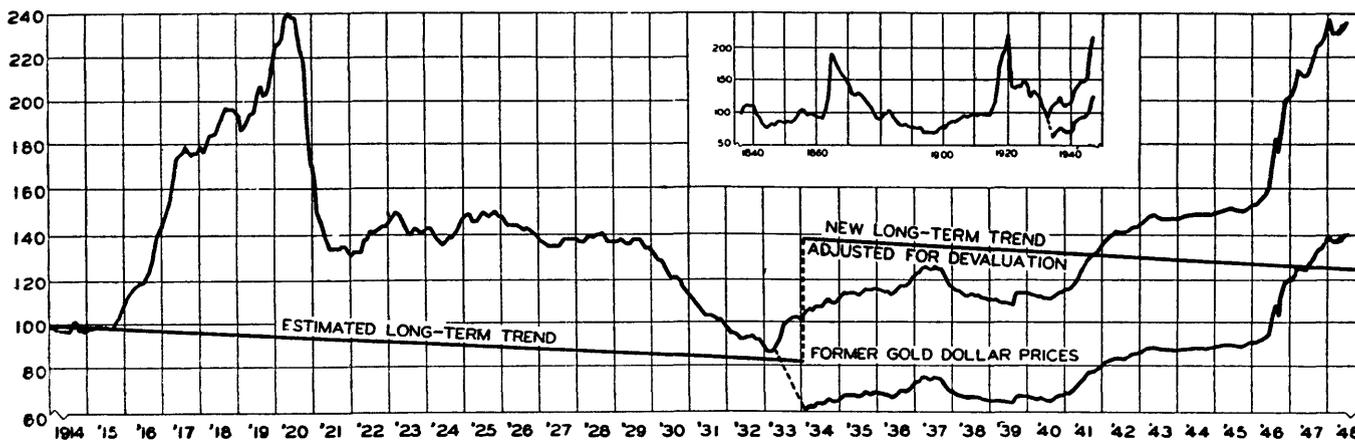
INDUSTRIAL PRODUCTION ADJUSTED FOR LONG TERM TREND



HARWOOD INDEX OF INFLATION



COMMODITY PRICES



less some unexpected expenditures are made in the last few days of the month, the Treasury should have a surplus in excess of \$500,000,000 for the month as a whole. If such proves to be the case, the revised index

of inflation for June will be nearly unchanged from that shown on the chart for May.

Tax receipts thus far in June confirm our estimate that the tax-reduction bill passed several weeks ago will

cause a much smaller reduction in Treasury receipts than was officially estimated. Therefore, our prediction in the last "Monthly Bulletin" to the effect that slight deflation rather than more inflation is to be expected by early 1949 still seems to be the best guess possible at this time.

Department-Store Sales

Department-store sales for the week ended June 19, 1948, were 2 percent more than sales reported for the previous week and were 21 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

Prices of commodities sold at wholesale during the month ended in mid-June continued the rise begun in April. Higher prices for farm products and foods accounted for most of the change in the indexes shown on the accompanying chart.

The preliminary index of prices of commodities sold at wholesale for June was slightly less than 1 percent more than the May figure and was 11 percent above that reported for June last year. The latest figure is still slightly below the postwar high reached last January.

In spite of the large declines in the prices of grains and a few other farm products that have occurred this year, the index of farm-products prices is only 2.5 percent below the 1947-48 high. Because of higher prices for livestock, particularly beef and spring lamb, and for butter, cheese, and other dairy and poultry products, the index of farm-product prices rose more than 3 percent during the month ended mid-June. Lower grain prices are enabling farmers to buy feed at prices well below those paid several months ago. Although lower prices for livestock and dairy products should follow eventually, the scarcity of these commodities in relation to the large effective demand has resulted in even higher prices for some of these products.

Prices of food products followed the trend of farm-product prices, although the price increases that had occurred by mid-June were somewhat less for the former than the latter. The preliminary June index of food prices was slightly more than 1 percent above the May figure and was 10 percent more than that reported in June 1947. The principal gains were in prices of meats and dairy products.

The only other major price increase during the month was that reported for chemical products. This component of the combined index was 2 percent above that reported for May and was 14 percent higher than the June 1947 index. Prices paid for fuel and light increased slightly, but prices of textile products, metals and products, building materials, housefurnishings, and

miscellaneous items remained unchanged. The price index for hides and leather products was the only one that decreased during the period.

Primarily because of the substantial increase in the prices of farm products, the index of raw-materials prices increased nearly 2 percent. Prices of semimanufactured items also rose, but the prices of finished goods were unchanged.

Although there is little chance that the prices of the major agricultural products will decline much below support levels, prices of most other commodities have a less firm foundation. They are supported only by the huge volume of inflationary purchasing media still in circulation. As we have previously mentioned, even higher prices are possible temporarily, but in the long run declines to levels far below those now prevailing are to be expected, unless there is further devaluation of the dollar in the meantime.

UNITED STATES BUREAU OF LABOR STATISTICS WHOLESALE COMMODITY PRICE INDEX (Monthly Average 1913=100)

	1920 High	1933 Low	1947-48 High†	June 1947	May 1948	June* 1948
Farm Products	238	57	279	249	263	272
Foods	232	84	280	252	276	280
Hides and Leather	307a	100	298	254	277	275
Textile Products	340	89	261	242	260	260
Fuel and Light	342	99	215	170	218	219
Metals and Products	173	85	172	157	173	173
Building Materials	297	123c	345	308	347	347
Chemicals	238b	88	173	150	167	171
Housefurnishings	266	127	253	230	258	258
Miscellaneous	255	83	177	161	173	173
Raw Materials	241	70	267	233	259	264
Semimanufactures	338	74c	211	195	203	204
Finished Goods	227	95	227	204	229	229
All Commodities	240	86	237	212	234	236

*Preliminary; a 1919; b 1918; c 1932; † excludes latest 2 months shown

Latest Weekly Data

	1947 June 24	1948 June 17	1948 June 24
(August 1939=100)			
Spot-Market Prices (28 basic raw materials)	299	331	331
Commodity Futures Prices (Dow-Jones Daily Index)	266	315	319

BOOK REVIEW

Economic Report and Economic Development in Selected Countries, Department of Economic Affairs of United Nations
Columbia University Press, New York (\$2.50 and \$3)

These books provide essential background material for all students of the Economic Cooperation Act of 1948. In addition, they provide much information on the plans and developments under way in many nations not included in the European Recovery Program.

Statistical Summary; Production, Purchasing Media, and Prices

	1947							1948					
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June
Index of Industrial Production . . .	111†	105†	108†	111*	114*	114*	114*	113*	112*	111*	107*	110*	112*
Index of Inflation (Ratio Form) ..	191†	192*	189*	187*	185*	185*	185*	181*	176*	170*	173*	173*	175*
Commodity-Price Index	212	216	220	225	226†	228†	232†	237†	231*	231*	232*	234*	236*
Commodity-Price Index	125	128	130	133	134†	135†	137†	140†	137*	137*	137*	138*	140*

(In terms of former gold dollar) *Preliminary estimate. †revised