

AMERICAN INSTITUTE for ECONOMIC RESEARCH

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MASSACHUSETTS

WEEKLY
BULLETIN

July 10

1950

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Further Implications of the Korean War

Despite the Administration's view that the Korean war is only a minor policing task for the United Nations, the possible serious consequences of even a small war are becoming more apparent. If the successes of the North Koreans continue for a few more days, there may be no American ground forces fighting on that peninsula and the reconquest of Korea will require a large amphibious operation. Even if the North Koreans are much less successful and our forces retain adequate air bases and ports, commitment of several United States divisions apparently will be necessary in order to win the Korean war.

War is different from peacetime business operations in one important respect. Nearly everyone in peacetime permits hope for the best to influence his decisions markedly; rarely is it urgently desirable to prepare for the worst. Although the worst often comes, it seldom is in the form of irremediable disaster; and recovery thereafter usually is possible. On the other hand, in war the general who fails to foresee and prepare to cope with the worst that the enemy can do probably will have a brief and ignominious career.

Consideration of some of the "worst" developments that may occur therefore is urgently desirable. Official Washington may continue its elaborate pretensions (or genuine nonchalance, whichever the attitude is) for some time; but the logic of events probably will force on our "leaders" in Washington a more realistic attitude, one that we believe the American public is prepared to accept now.

The Worst Possibilities

As a first step in visualizing the worst possibilities, the Korean terrain and related factors should be considered. From its southern to its northern boundaries, all of Korea extends nearly 600 miles, a distance approximating that from Philadelphia to the northern tip of Maine or from Birmingham, Alabama, to Chicago. The distances from east to west coasts vary, but the peninsula is nearly the same width as Florida. Except for relatively minor operations on the Mississippi, the entire Civil War in the United States, in which a few million men were engaged, was fought within an area smaller than Korea.

The terrain in Korea is rugged; several mountains exceed 5,000 feet in elevation. Good roads are rare;

and the railroads are single-track routes, relatively primitive by American standards. The climate is humid with a long rainy season and little freezing weather, especially in southern Korea.

In view of the foregoing, one of the "worst" possibilities is that the reconquest of Korea may require virtually all of the regular Army and Marines now available in the Pacific area and the United States. Furthermore, that possibility seems less remote at this writing than it did when the fighting began. If the North Koreans continue to be as effective as they have recently been, this possibility will soon be highly probable; and it will be the least unpleasant of the various possibilities involved.

An even worse possibility is that sending nearly all of the mobilized forces of the United States to Korea may fit in with Russia's grand strategic plan. If Mr. Stalin has an over-all plan, it might be something like this: If the war in Korea could have brought that entire area under his domination promptly and at small cost, well and good, a small investment with large profits. On the other hand, if the war in Korea brought in the United States, as it now has, perhaps nearly all of America's mobilized forces would be committed there to a campaign involving months, at least, thus making possible other moves by Russia without danger of effective intervention by the United States. Such moves might be planned in southeast Asia (the least probable if United States air and naval forces are concentrated in the west Pacific), in Turkey or Iran, in Yugoslavia, Greece, or even in western Europe. In this connection, a press report just published states that arms and equipment originally scheduled for the Atlantic Pact nations will now go west to the Philippines, Indo-China, etc.

We do not suggest that the "worst" possibility just described should be considered probable at this time. However, Mr. Stalin presumably did not deliberately plan to *lose* prestige by the Korean incident. He must have foreseen the possibility of American intervention; therefore, we think it probable that he planned to make that intervention as costly as practicable, even if he did not thus plan to tie down most of the United States' armed forces as a preliminary to other operations elsewhere.

Some Pertinent Questions

The foregoing considerations lead us to raise certain questions about the present conduct of the Nation's affairs. Although some of the questions may seem primarily military rather than economic, we shall summar-

ize their economic significance in the concluding paragraphs.

1. Is not mobilization of additional Army, Navy, and air units, at least sufficient to replace those committed to action in Korea, imperative at this time? We assume that Mr. Stalin is well aware of the fact that National Guard units will require several months of training before they can be expected to fight. Either the mobilizing and training of some National Guard units or the formation of additional regular Army and Marine divisions as replacements for the ground forces committed seems to be the minimum requirement for preserving the precarious balance of potential power that has prevailed to date. Unless we are prepared to forestall Russia's *next* move while fighting the Korean war, we may be caught in a trap that Mr. Stalin has prepared.

2. Why is not more being done about the grave risk of attack by atomic bombs on certain American cities? If Russia's grand strategic plan is to immobilize our forces in Korea and then strike elsewhere, atomic bombing of certain American ports in due course might well be a logical part of the plan. By rockets from submarines, such bombing presumably could readily be accomplished. In the absence of adequate preparation, such bombing or even the threat or rumor of it could be terribly destructive and might greatly hamper the American war effort. Much can certainly be done, *without arousing unnecessary fears*, to prepare for the worst. At least, the danger of unplanned mass efforts to escape from such cities as Boston, New York, Baltimore, and others could be lessened and perhaps avoided by intelligent preparation and instruction at relatively small cost. In the subways and subterranean floors of great buildings in New York, for example, there is much space available where partial protection at least from the effects of an atomic bomb are obtainable; but even those shelters will not be used to the best advantage in an emergency without careful forethought and preparation.

3. Why is there not recognition of the desirability, even necessity, of freeing all of Korea? The 38th parallel of latitude is a geographical abstraction, not a defense line. On the other hand, the White Mountains of northern and northwestern Korea form a barrier of major military importance between Korea and Manchuria. Those mountains approach 10,000 feet in height and virtually restrict military operations to relatively small portions of the border. Surely, neither the United States nor the United Nations intends that Korea shall be half slave and half free. The preposterous allocation to Russia's supervision of half of an area that we liberated through our conquest of Japan should be ended by such actions of the United Nations or our own as may be necessary. Correcting at least one of the mistakes that we made at the end of the last war would seem to be a logical way of obtaining better results from the present war, even if it remains a small one.

4. Why does the Administration belittle the present war; why not advise the American public to prepare in part for the worst possibility involved? The Swiss have been urged by their Government to accumulate stocks of food and otherwise be prepared for war. Surely our citizens are not so much less competent than the Swiss that they must be treated like children from whom one conceals one's fears. Simple and sane cautions urging housewives to can garden vegetables in greater amounts than usual this year, the lifting of sugar import restric-

tions so that small hoards could be accumulated in order to remove the need for rationing later, and other similar steps could greatly simplify the over-all problem if a major war comes. We believe that the American people would handle the situation as capably as the Swiss apparently have, given a small amount of intelligent leadership in the right direction.

5. In connection with the foregoing, we recognize that even moderate and economical preparation for the worst always runs the danger of being misunderstood by those who readily give way to panic fears; but would it not be better to run the risk of panics now rather than later when and if a major war begins? In any event, we do not believe that intelligent preparation for the worst possibility tends to breed panics; panics may follow from fear and despair of effective counteractions; despair results when leaders prove incapable of carrying the responsibilities thrust upon them, not when they prove by wise action their ability to foresee and forearm. As far as we can see, the only ones who will gain from belittling present dangers will be the Nation's known external enemies on the one hand and her perhaps unwitting internal enemies on the other hand who would not hesitate to foist on the Nation all the economic and other controls they could conceive of in the event of a major war.

6. For many years now, the Federal Government seems to have operated in part on the theory that Mr. Hopkins was right, that "the people are too damned dumb to understand." Actions that now stand out with increasing clarity as the major blunders of the past two decades were taken without consulting the people of the United States or giving their representatives in Congress an opportunity to debate the issues. We therefore have one final question: Isn't it time to quit trying to "kid" the American public by feeding them war pills sugar-coated with such phrases as "policing action," by offering them the welfare state while depreciating the dollar and thus dissipating the life-insurance and other funds accumulated for their future welfare, and by ignoring dangers that surely are real? In short, if more intelligent and effective preparations for the worst possibility, without emergency scares and controls, are not soon undertaken in Washington, will not the people have good grounds for believing that the top officials of Government are the ones who are "too damned dumb to understand"?

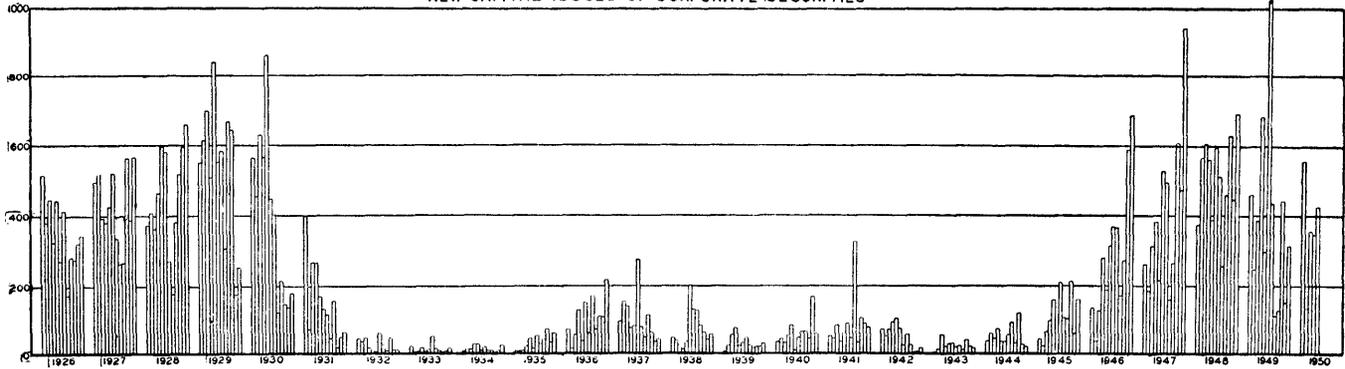
Conclusions

The foregoing should make clear why we fear that betting too much on the Korean incident being only a policing action may lead to most serious consequences if we lose the gamble. (We pointed out last week how the consequences might be disastrous even if we won that bet.) We particularly fear the apparent bland ignoring by Washington officials of the grave danger involved, or their unwillingness to confide their concern to the public.

We believe that it is time now to face the unpleasant potential facts of the future. The United States may have to be fighting small wars or even a major war for the next decade or two. If we are not to lose the best of what we have through depreciation of the dollar and the loss of economic freedoms that will not readily be regained, calm appraisal of the worst possibilities and at least modest and economical preparations to cope with them must replace the nonchalant imperviousness to reality that now seems to be prevalent in Washington.

MILLIONS OF DOLLARS

NEW CAPITAL ISSUES OF CORPORATE SECURITIES



Note: The Dow-Jones Daily Index has been revised in an attempt to correct distortions due to the elimination of the silk market and the influence of Government subsidies on futures prices. In order to compare current data with that published in past *Research Reports*, multiply the earlier data by 1.05.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 93 percent of capacity for the holiday week ended July 8, 1950, was 8 percent less than that in the preceding week, but was 59 percent more than that in the corresponding week last year. The decrease below 100 percent of capacity was attributable to the Fourth of July holiday. Nevertheless, production was at an all-time high for a 4th of July week.

	1929	1932	1937	1938	1949	1950
Percent of Capacity†	95*	12*	70*	28	61*	93*p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.84	1.91
Production (Million Tons)	1.31	.18	1.06	.43	1.12	1.78

Automobile and truck production during the week ended July 1, 1950, in the United States and Canada, was estimated at 194,259 vehicles, compared with a revised total of 205,334 vehicles for the previous week.

	1929	1932	1937	1938	1949	1950
Vehicles (000 omitted)†	99	51	123	41	145	194p

Electric-power production in the week ended July 1, 1950, increased to 6,115,119,000 kilowatt-hours from 6,102,288,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1949	1950
Billion Kilowatt-Hours†	1.59	1.46	2.24	2.01	5.41	6.12

Lumber production in the week ended June 24, 1950, decreased. *The New York Times* seasonally adjusted index was 2 points below that for the previous week but was 14 points above that for the corresponding week last year.

	1929	1932	1937	1938	1949	1950
<i>The New York Times</i> Index†	132	39	97	85	92	106

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

DEMAND

Department-Store Sales

Department-store sales for the week ended July 1, 1950, were 5 percent more than sales for the previous week and were 10 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1949	1950	1950
(August 1939=100)	July 6	July 29	July 6
Spot-Market Prices	229	268	272
(28 basic raw materials)			
Commodity Futures Prices	277	332	337
(Dow-Jones Daily Index)			

BUSINESS

New Capital Issues

New corporate financing increased 22 percent during May and was 43 percent greater than that of May 1949. For the first 5 months of the year, however, the total of new capital issues was 13 percent less than that of the corresponding period of 1949.

The data shown on the accompanying chart include stocks and short- and long-term bonds and notes newly issued by manufacturing and commercial organizations.

The tendency of corporations during 1948 to finance capital expenditures largely by incurring long-term debt has continued at a slackened rate. The dollar value of long-term bonds and notes issued in 1948 was 5.8 times that of stocks, short-term bonds, and notes; in 1949, the ratio was reduced to 4.1. However, the return to an even larger proportion of equity financing was reflected in the data for the first 5 months of 1950, when the dollar value of the new long-term debt incurred by all corporations was only 2.3 times that of new common-stock issues.

In an earlier article on new capital issues (*Research Reports*, August 1, 1949), we mentioned that "Instead of having to obtain new funds before initiating expansion programs, many of the largest, if not most corporations, have delayed new financing until the new plant and equipment had been partially or completely paid for." Consequently, the estimated new plant and equipment expenditures for the third quarter of 1950 may indicate the amount of new capital issues to be expected during the next few months. These estimates have been revised upward recently; and, based on plans contemplated during April and May, business expenditures on new plant and equipment during the third quarter of 1950 are expected to be nearly as great as those during the preceding quarter and nearly 3 percent more than those in the third quarter of 1949. (See "Private Contracts for Engineer Construction.")

Apparently a substantial increase in capital flotations occurred during June. For a time, the initial uncertainties brought about by the war may discourage most companies from floating new capital issues. However, this situation is expected to be temporary, and capital flotations probably will increase as soon as conditions are more settled.

Industrial Employment

The Federal Reserve Board's seasonally adjusted index of factory employment for May was 2 percent higher than that for the previous month and was 4 percent higher than that of a year ago. The index was 22 percent below the all-time high reached in November 1943.

(The accompanying charts show average yearly industrial employment and productivity prior to 1949, with data for the most recent month available indicated by the dotted lines.)

In the week ended June 10, the number of gainfully employed had increased to 61,482,000 and was within 150,000 of the all-time peak reached in July 1948. Although much of the 1,750,000 increase during the preceding 4 weeks was attributable to seasonal increases in the number of agricultural workers, more than seasonal gains apparently occurred in the construction and manufacturing industries.

Industrial Productivity

Industrial productivity per man-hour increased approximately 3 percent during May and exceeded the all-time peak reached in 1940 for the first time since the end of the war. Since the 1943 low the index of industrial productivity has increased 63 percent.

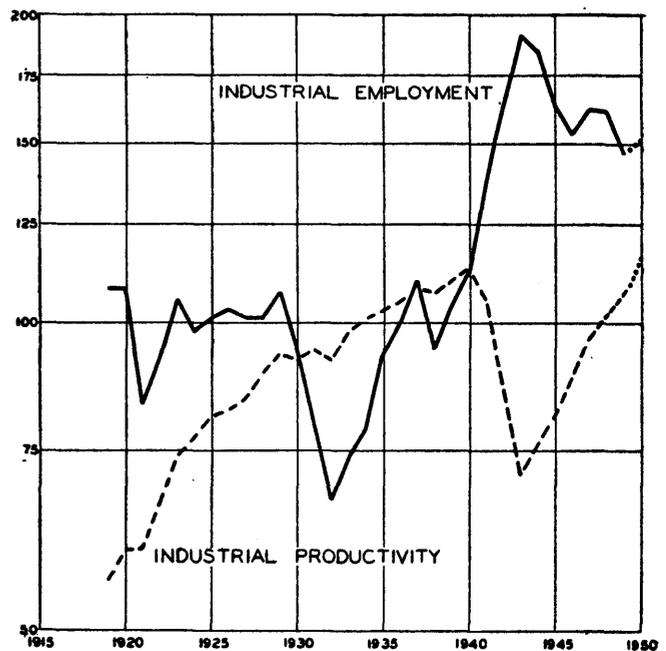
Our estimates of industrial productivity reflect changes in both total factory employment and the number of hours worked per week. During May the average number of hours increased to 39.9. This figure was 0.2 hours more than that during the preceding months of 1950. Apparently, this index, which is a "leading" indicator of business-cycle changes, has not turned downward as yet.

Short-term changes in an index of industrial productivity are of no great significance. However, recent movements of our index suggest that the disruptions resulting from World War II apparently have been overcome. Further gains are probable if the Korean war does not become a major military effort.

Private Contracts for Engineer Construction

The 3-month moving average of private contract awards for heavy engineering construction increased 5 percent during May; and, for the fifth consecutive month, reached an all-time high. The May average was 89 percent above that of May 1949 and exceeded the peaks reached in 1929, 1946, and 1949 by 89, 63, and 51 percent respectively.

Construction costs, according to *The Engineering News-Record* index, reached an all-time high in May. Apparently the increase in costs has been attributable



primarily to higher labor costs resulting from overtime work. Other construction-cost indexes (in which labor costs are based on labor wage rates) and prices of building materials have risen much less rapidly than *The Engineering News-Record* index (in which labor costs are based on wages actually paid).

Because of the increase in costs, our 3-month moving average of the physical volume of engineering construction (which is calculated by dividing the monthly value of construction contracts by the construction-costs index) increased only 4 percent during May. The index, which was at a postwar peak, was less than 1 percent below the 1930 high reached in May (the next to the highest level ever reached) and was within 22 percent of the all-time peak reached in March 1929.

According to the most recent survey of businessmen's plans for expenditures on new plant and equipment, businessmen in April and May revised earlier plans substantially upward. Expenditures during the second quarter of 1950 were expected to reach \$4,530,000,000, approximately 6 percent more than previous anticipations and only 3 percent less than expenditures during the corresponding period of 1949.

Unless the Korean war results in the curtailment of expansion programs, either by inducing fears regarding the future economic outlook or by diverting land, labor, and capital from plant expansion to the production of war goods, private engineering construction probably will continue at record levels for several months.

