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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Greater Production Is Possible Immediately

Mr. Truman stated in his midyear economic report that "Under current conditions we face a twofold task: first, to get as much total production as we can; and second, to emphasize the right kind of production and the best utilization of the product." Only the first part of this twofold task will be discussed in this article. (Regarding the second, see the discussion of "The Dangers of Wartime Controls," July 17, 1950, *Research Reports*.) The problem of immediate concern is, How can output in this country be increased in order to provide the materials essential to the successful conduct of a minor war and at the same time satisfy domestic demand? This question is especially pertinent at this time because of the fact that our productive facilities were being utilized virtually at capacity even before the Korean War began. Furthermore, Congress is considering and apparently will approve legislation intended to facilitate the expansion of production, i. e., Government loans to industry and Government building of industrial plant as well as allocation and priority controls.

From the long-term point of view, consideration would have to be given to expansion of the Nation's capital plant and equipment, innovations and technological progress, and better educational facilities for the improvement of worker and managerial skills. However, the nature of the present emergency is such that we should be concerned first with the means immediately available for expanding this country's production of goods and commodities.

One means of increasing output is to augment the factors of production: land, labor, and capital. However, in the short run, substantial increases in any one of these factors is not always practicable, especially in a period of boom prosperity and nearly full employment. Therefore, we must also consider ways of increasing the effectiveness and efficiency of these factors.

Land

Immediate expansion of this country's abundant land and natural resources is not practicable. Except for some mineral deposits of unknown extent, the location and extent of the Nation's productive land and natural resources are known; and the real problem now involved is the most effective use of the land and natural resources.

That the Nation's land and natural resources are not being used most effectively is well known. For example, the Government's farm program restricts the amount of each farmer's land that can be planted to certain crops. Consequently, some of the land best adapted to certain crops is used for others or is idle. If farmers were allowed to be influenced by the dictates of free markets rather than the decisions of a few individuals in the Department of Agriculture, farm land presumably would be used more effectively.

At present, tariffs, import duties, quotas, and other restrictions on goods entering this country limit the volume of raw materials, goods in process, and finished articles that can enter this country and that could be used to advantage both for the domestic economy and the war effort. Tin, copper, other minerals, and sugar are examples of raw materials on which import restrictions have been placed. Without these restrictions and duties, the amount of such raw materials that would be available in this country doubtless would be ample for domestic consumption and for the war effort.

Similarly, arbitrary production quotas established by National, State, and local government legislation and labor unions limit the production of oil, coal, and various other commodities. Removal of such restrictions would result in large amounts of such commodities being made available for domestic and war consumption.

Mention should also be made of the fact that the loan feature of the farm price-support program facilitates withholding of commodities from the markets by farmers for speculative purposes. Although Administration and congressional leaders have condemned commodity speculation, they seem to have overlooked this important aid to speculative operations.

Labor

Four important methods can be used to augment the labor factor of production: (1) to employ all the unemployed of the present labor force, (2) to expand the labor force, (3) to increase the number of hours worked, and (4) to better the efficiency of labor.

In view of the relatively small number now unemployed, the number of productive workers can be increased little by employing the idle portion of the labor force.

Recruitment of women, children, and older men for the labor force seems wise only to a limited extent as long as only partial mobilization is contemplated, because over-all efficiency would be adversely affected. However, the social-insurance programs, which encour-

age retirement of men who often are still capable of contributing to the productive effort, could be modified in order to encourage the continued employment of such capable men. Closed-shop restrictions imposed by labor unions could be modified in order to encourage employment in the industries most needing the services of more workers.

When nearly all the labor force is employed, the men to operate second and third shifts are not available. However, the workweek could be lengthened without difficulty. Unfortunately, the penalties imposed in the form of time-and-a-half or double pay for overtime work discourages this procedure. Apparently production could be increased substantially merely by returning to the 44- or 48-hour week in many industries for the duration of the present emergency.

Increased productivity during wartime is difficult to obtain when the least efficient of the labor force are employed. However, elimination of make-work plans (including the hiring of extra men, more than are necessary for performing the job) could contribute to greater worker productivity.

Government subsidies and loans to farmers and others encourage the wasteful use of labor. For example, a marginal farmer who is continuing as a farmer only because the Government will buy his crops at high prices might better join the industrial labor force. Government subsidies in the form of loans for such companies as the Lustron Corporation tend to withhold workers from the employment of more efficient and perhaps more essential industries.

Capital

The expansion of capital plant and equipment can be done only over a long period. However, using already existing but idle capital will contribute to the expansion of output. In the oil industry, for example, a major expansion of output is possible merely by turning a few valves and drawing on wells already drilled.

Conclusions

Apparently production in this country can readily be expanded in the short run by increasing the effectiveness and efficiency of the three factors of production. The factors of production are not already being used as effectively as they could be largely because of restrictions imposed by the Federal Government and other agencies. Therefore, it would seem to be wise to eliminate the restrictions that now exist rather than try to put American industry in a new strait-jacket of unnecessary controls. We can increase production substantially if we only choose to do so.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 99.9 percent of capacity for the week ended August 12, 1950, was slightly more than that in the preceding week and was 28 percent more than that in the corresponding week last year. The Industry's annual theoretical capacity has been increased to approximately 101,000,000 net tons. (The data shown in the accompanying table have been adjusted to show the change in the theoretical capacity.)

	1929	1932	1937	1938	1949	1950
Percent of Capacity†	94	14	84	41	82	100p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.84	1.93
Production (Million Tons)	1.30	.21	1.27	.63	1.51	1.93

Automobile and truck production during the week ended August 5, 1950, in the United States and Canada was estimated at 174,830 vehicles, compared with a revised total of 191,978 vehicles for the previous week.

	1929	1932	1937	1938	1949	1950
Vehicles (000 omitted)†	114	31	80	15	143	175p

Electric-power production during the week ended August 5, 1950, increased to 6,247,464,000 kilowatt-hours from 6,190,098,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1949	1950
Billion Kilowatt-Hours†	1.73	1.43	2.26	2.12	5.47	6.25

Lumber production in the week ended July 29, 1950, increased. *The New York Times* seasonally adjusted index was 7 points above that for the previous week and was 22 points above that for the corresponding week last year.

	1929	1932	1937	1938	1949	1950
<i>The New York Times</i> Index†	128	35	87	87	88	110

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

Ratio of Retail Inventories to Sales

The ratio of retail inventories to sales decreased 4 percent during June to a level 10 percent below the post-war high reached in March 1950. Such a decrease during the spring months has occurred in four consecutive years. The ratio for June was 1 percent above that for June last year.

During June the Federal Reserve Board's seasonally adjusted index of department-store stocks decreased 3 percent, while the index of department-store sales increased 2 percent. Much of the decrease in the ratio since March has been attributable to the 8-percent increase in sales. Inventories during that period have decreased only 3 percent.

In October 1941, prior to the beginning of World War II, the ratio of retail inventories to sales increased nearly 17 percent. The ratio decreased during the following 3 months, reaching a low in January 1942. Inventories during this 3-month period remained unchanged; sales increased 6 percent during November, were relatively unchanged during December, and increased more than 13 percent in the first month following the entry of the United States into the war. As a result of the general decrease in sales after January and the accompanying increase in inventories, the ratio rose 54 percent during the next 5 months.

A similar situation may occur in the next several months. In July, the month following our entry into the war against Korea, department-store sales increased substantially (the increase has been estimated to have been as great as 23 percent). At the same time there have been reports that the department stores have been making large purchases of goods to meet this increased demand and augment inventories. If this increased buying of goods by department stores is based on July sales and if inventories therefore are increased substantially, we should expect a substantial rise in the ratio during the next few months as the scare buying diminishes and sales return more nearly to the prewar level. A factor that should not be ignored, however, is that department-store orders may not be filled immediately; consequently, inventories may not increase greatly.

Our study of department-store new orders suggests that prior to July no unusual developments had occurred



in the plans of department-store buyers. New orders increased 33 percent during June, but the increase apparently was seasonal. In the 4 years since the end of World War II, new orders have increased 24, 39, 32, and 9 percent during the month of June. New orders during July, for which data are not available, should be especially significant in providing a clue as to the effect of consumer scare buying on the purchasing plans of department-store buyers. In every year since 1942 new orders have decreased during July. Consequently, a substantial increase of orders in July would suggest that department-store buyers have embarked on a scare-buying program of their own.

In view of the unpredictable extent of consumer credit controls, of consumer scare buying, of department-store buying, and of manufacturers' ability to fill orders, estimating the trend of the ratio of retail inventories to sales during the next few months is difficult. The most probable possibility is that the ratio decreased in July and will increase to postwar highs in the next few months. As long as the Korean War continues, the effects of changes in department-store inventories on the cyclical movements of business activity probably will not be decisive.

DEMAND

Purchasing Media

The amount of purchasing media in circulation increased \$1,102,000,000 during June to \$97,970,000,000, only \$447,000,000 less than the all-time high reached in December 1947. For the first year since 1947 the purchasing-media total has exceeded that of the preceding December prior to the end of the year. Since March the purchasing media in circulation have increased \$4,081,000, about 4 percent. The July figure was 4 percent more than that reported in July last year and was an all-time high for that particular month.

Purchasing media derived from the money commodity, gold, decreased further in July to \$23,093,000,000, the lowest level reached since November 1948. Since the high reached in August 1949, the monetized portion of the Nation's gold stocks has decreased \$467,000,000, nearly 2 percent. One trade journal recently stated that greater import volume, large forward purchases of foreign goods, United States tourists' spending in foreign nations, and increased chartering of foreign ships by merchants of this country have contributed to the withdrawal of gold from this country.

For the second time since December 1949 and for the second consecutive month, purchasing media derived

from the second source (commercial, industrial, and agricultural loans) increased. The gain was \$458,000,000, more than 2 percent; and the new total exceeded that of December 1949 by nearly \$50,000,000. The gain in commercial and agricultural loans in July was somewhat larger than that reported in the corresponding months of the past 3 years. Presumably the somewhat larger-than-seasonal gain was in part attributable to increased inventory buying, which in turn was caused by scare buying of the public.

Purchasing media derived from the last two sources combined, both of which are inflationary, increased further during July. Purchasing media derived from the third source decreased \$164,000,000, but the amount derived from the fourth source ("printing press") increased \$894,000,000.

During July the security holdings of the commercial banking system decreased nearly \$600,000,000. An increase of approximately \$250,000,000 in the security holdings of the Federal Reserve banks was more than counterbalanced by an \$850,000,000 decrease in the holdings of the other commercial banks.

As a result of the changes discussed, both inflationary and noninflationary purchasing media increased during July, 2.1 and 0.4 percent, respectively. The greater relative increase in the amount of inflationary purchasing media accounts for the increase in the index of inflation during July.

Of interest is the fact that the Federal Reserve banks, apparently with the approval of the Board of Governors, have continued to dispose of Government bonds. (This development was reflected in a reversal of the temporary upward trend of Government-bond prices.) In the 2 weeks ended August 2, 1950, the Federal Reserve banks decreased their Government-bond holdings by \$430,000,000; and, since the first of June, such holdings have been decreased nearly \$1,000,000,000. The total decrease since the first of the year has been \$2,372,000,000. Thus, in spite of the war and the desire of the Administration and the Treasury to keep interest rates low, the Federal Reserve banks have continued their sales of Government bonds. On the other hand, the Federal Reserve banks have cooperated with the Treasury in the sale of shorter-term securities and have purchased large amounts of the notes recently issued.

The Federal Reserve Board recently drafted a monetary policy for the present emergency. The Board clearly indicates that its members desire to curtail the expansion of credit by means of higher interest rates. The Board proposed to raise interest rates first on Government securities, a development that would in turn influence the

interest rates on all types of bank credit. Thus the action of the Federal Reserve banks affecting Government bonds is not altogether surprising. The question that arises now is, How long will the Board continue its policy of selling Government bonds?

Although the tax legislation now being debated is altogether different from that under consideration before the war in Korea began, the provision requiring earlier payment of corporate taxes apparently will be adopted. The effects of such legislation would be to concentrate the deflationary effects of tax payments to an even greater extent in the first and second quarters of each calendar year.

Apparently the Board is prepared to impose new restrictions on consumer credit and other loans by September. Already private lending agencies have been warned to avoid loans "that might add to the increasing inflationary pressure on the economy."

In view of the seasonal increase in the purchasing media in circulation expected during the remainder of the year, a new all-time high probably will be reached before 1951. However, as a result of the anticipated curtailment of new real-estate and installment loans during the remaining months of this year, the amount of new purchasing media placed in circulation may be less than that added during the last quarter in each of the past few years.

Department-Store Sales

Department-store sales for the week ended August 5, 1950, were slightly more than sales for the previous week and were 30 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1949		1950	
(August 1939=100)	Aug. 10	Aug. 3	Aug. 10	
Spot-Market Prices (28 basic raw materials)	243	304	306	
Commodity Futures Prices (Dow-Jones Daily Index)	289	375	375	

BOOK REVIEWS

American Housing: Problems and Prospects
The Twentieth Century Fund, New York (\$3)

This special report, begun just before the war and completed in 1943, probably is the most comprehensive and thorough study of the country's housing problem made in recent years. Although some of the material and information now is out of date, the analyses and conclusions for the most part are complete and sound.

The book is divided into three major sections: the production of housing, the marketing of housing, and conclusions and recommendations. The research staff

of The Twentieth Century Fund made the analyses contained in the first two sections, and the conclusions and recommendations were prepared by a committee of housing specialists appointed by the Fund officials.

The study analyzes the major factors involved in the housing industry, such as materials, labor, management, financing, construction techniques and methods, regulations, and other factors. It concludes that the vast need for housing is being supplied after a fashion but not adequately because of the many problems and obstacles encountered, which have existed for some time. Antiquated techniques, methods, and building codes have tended to hamper construction of housing and to keep prices high. The study states that in "the housing field Government, as well as private business, has tended to seek for compensation or partial remedies, to avoid basic solutions, to create conflicts, obstacles and costs."

The recommendations of the committee are especially interesting and are believed to outline a better approach to the housing problem than that taken by Congress in the Public Housing Bill passed last year. The extensive tables and information provided in the appendixes and the bibliography add to the usefulness of this study.

Encyclopedia of Banking and Finance by Glenn G. Munn (fifth edition) by G. L. Garcia
Bankers Publishing Company, Cambridge, Massachusetts (fifth edition, \$12)

This book is a fairly complete reference work of banking, investment, economic, financial, and related terms and subject matter. The terms and subjects are listed alphabetically, and an extensive bibliography is presented at the end of the description of many of the more important terms and subjects. Cross references add to the usefulness of this book.

