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GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Extension of the Defense Production Act[1]

During the past week Mr. Truman sent a message to Congress recommending the extension and strengthening of the present Defense Production Act. The message was in many ways similar to that of a year ago but differed in some respects.

Abandonment of Reason

Probably the essential difference between the two messages is the failure this year even to recognize the futility of price and wage controls as a means of controlling inflation. A year ago Mr. Truman said: "Price and wage controls do not cure the basic cause of inflation—the inflationary gap between the supply of goods and the volume of buying power. The cure can come about only by closing the gap—through tax, savings, and credit programs which reduce the demand for goods, on the one hand, and production programs which increase the supply, on the other."

This year's message indicates, as did the budget message, that a pay-as-you-go tax program has been abandoned and, almost as an afterthought, mentions that in addition to the strengthening of controls "a loose policy on consumer and real estate credit" must not be permitted.

Three New Causes?

A year ago Mr. Truman at least recognized the importance of taxes, savings, and credit as means of fighting inflation; but his more recent message gives the impression that three new and more fundamental factors are involved today. Nearly half of the message was devoted to a discusson of the Capehart, Herlong, and Butler-Hope amendments.

According to Mr. Truman, "By far the worst and most damaging provision in the present law is the Capehart Amendment. This *allows* manufacturers and processors to demand and get price *ceilings* high enough to cover all cost increases incurred between the Korean outbreak and July 26, 1951." [Italics supplied.] Prior to price controls, the law of the land was such that a manufacturer's legal price ceiling was unlimited. However, then as well as now, what the manufacturer could get for his product was based on the existing supply of all goods and the effective demand for those goods. Price *ceilings* may be determined by Capehart amendments; but prices will continue to be determined in the market places, black, gray, or otherwise.

Mr. Truman's concern with the Herlong amendment is of a similar nature. According to the President, this amendment "guarantees pre-Korean percentage mark-ups to wholesalers and retailers." The amendment, of course, does no such thing; it merely *allows* or *permits* such mark-ups. Any actual increase in price greater than that the consumer is willing and able to pay will be short-lived.

The Butler-Hope amendment, according to Mr. Truman, "bans the use of slaughtering quotas on livestock" and creates "just the sort of situation made to order for the black marketeer." Apparently overlooked is the fact that the so-called "black marketeer" would be out of business if inflation were controlled by stopping inflation instead of by shadow-boxing with its effects.

Unwarranted Assumptions

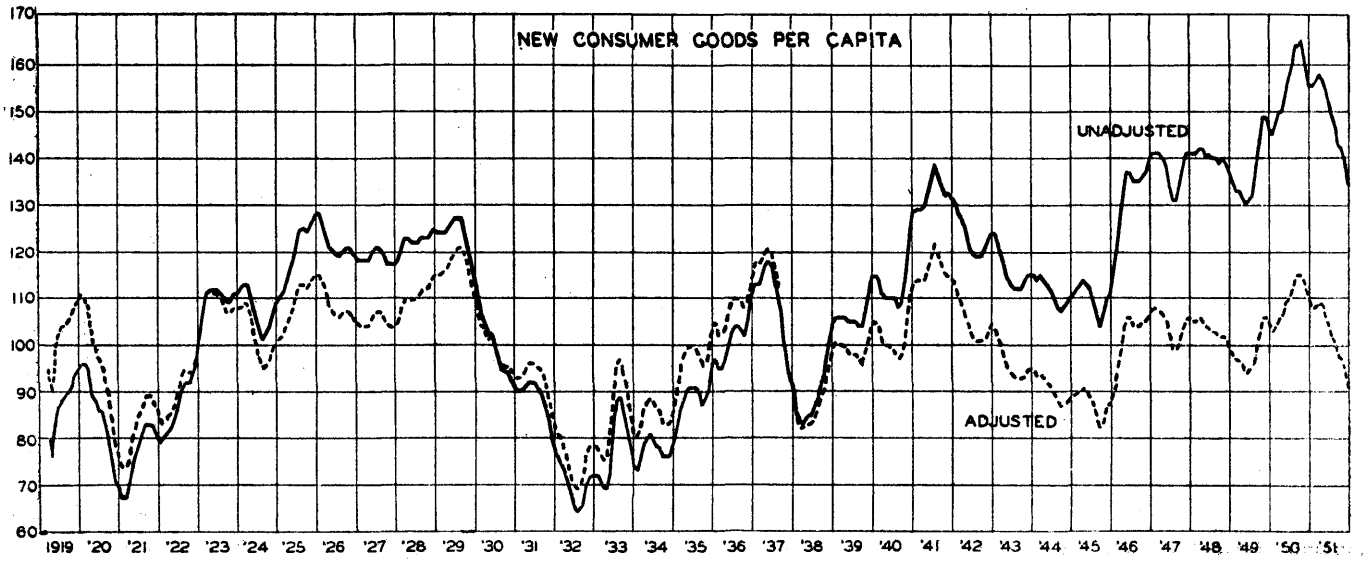
Arguments for wage and price controls often are based on unwarranted assumptions. An example was Director of Defense Mobilization Wilson's speech last July, in which he indicated that controls were essential "to insure the safety of the Nation."[2] The President, however, offers several such unwarranted assumptions in his controls message.

For example, Mr. Truman says, "It is clear that, without the controls we have today, a great many prices—and wages and rents as well—would be much higher than they are right now." True, the President does not indicate how many is "a great many" or how much higher is "much higher." Nevertheless, he suggests that price controls have been able to do something that, as far as we know, they never have been able to do in the history of mankind.

A second example is found in the words, "But it was the installation of price and wage controls that induced public confidence, and put an end to speculative buying based upon anticipation of higher prices." Mr. Truman apparently is referring to the fact that the scare buying induced by the entrance of the Chinese into the Korean War tapered off in February and March 1951 after the imposition of controls. Mr. Truman should note that a

[1]During 1951 the Institute published several articles that dealt with price and wage controls. Because most of the articles are still pertinent, a list of titles and dates follows: "Price and Wage Controls," February 5; "Extension of the Defense Production Act," May 14, May 21, June 11, and June 18; "Whither Controls?" July 9; and "Controls Wither," July 16.

[2]"Controls Wither," *Research Reports*, July 16, 1951.



similar wave of scare buying occurred during July 1950 and decreased sharply thereafter without the benefit of price controls.[3]

The "Fair Deal"

The message makes clear one aspect of the "fair deal." In effect, with respect to price and wage controls, the "fair deal" proponents believe that a group of Government officials, by manipulating prices and wages, can better assure each individual his share of currently produced wealth than can supply and demand in a free market.

Mr. Truman provides several examples of how, under the Capehart amendment, decreases of price ceilings suggested by the stabilizaton agencies as "fully fair and equitable to all concerned and protecting the interests of both the company and its customers" were superseded by higher price ceilings in order to reflect increased costs. The message then asserts, "These are not isolated cases, they are just a few examples from the 5,000 requests for Capehart increases already filed."

The examples are presented as proof that the price ceilings calculated as provided in the Capehart amendment would be unfair. However, we suggest that the many requests for increases rather raise another question: Are the prices chosen by the stabilization officials as fair and equitable as those officials thought them to be? Approximately 5,000 requests for price ceilings different from those calculated by the board suggest that the stabilization boards may not adequately replace the free markets.

Conclusions

Readers may recall the following from The Wall Street Journal, *which we have quoted previously. "Michael DiSalle, the price director, admitted that price controls would not halt, or even control, price rises. But he argued that they were politically necessary; for 'psychological' reasons the government had to convince the citizens that it was doing something about inflation. Congressman Celler was even blunter. He said that regardless of whether direct controls were good or bad the people want them and so the politicians were going to keep them."*

In The New York Times *the text of the President's message was adjacent to the news item that "Retail Prices of Food Show Sharp Decline." Moreover, commodity futures and commodity spot-market prices, which had been virtually unchanged for several weeks, recently have begun to decrease rapidly. We should not be surprised if prices decline so much more during the next few months that price and wage controls become absurd. Apparently nothing less will save the Nation from continuation of the price-control farce.*

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 101.1 percent of capacity for the week ended February 16, 1952, was slightly more than that in the preceding week and was 6 percent more than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Percent of Capacity†	87	27	85	31	99	101p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.00	2.08
Production (Million Tons)	1.20	.41	1.28	.48	1.98	2.10

Automobile and truck production in the United States and Canada during the week ended February 9, 1952, was estimated at 101,191 vehicles, compared with a revised total of 102,402 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Vehicles (000 omitted)†	116	30	72	58	116	101p

Electric-power production in the week ended February 9, 1952, decreased to 7,455,509,000 kilowatt-hours from 7,572,430,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Billion Kilowatt-Hours†	1.73	1.59	2.20	2.05	6.96	7.46

Lumber production in the week ended February 2, 1952, increased. *The New York Times* seasonally adjusted index was 4 points above that for the preceding week and was 11 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
The New York Times Index†	137	38	79	77	110	121

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

[3]Some may argue that the earlier scare buying ended because consumers anticipated the imposition of controls. Such an argument, we believe, not only underestimates the consumers' trust in promises, but fails to explain how the second wave of scare buying could have occurred in January.

New Consumer Goods Per Capita

The index of new consumer goods produced per capita, unadjusted for long-term trend, decreased 3 percent during December to a level 19 percent below the all-time high reached in October 1950. The December index was within 3 percent of the low reached in May 1949, when over-all business activity was contracting.

The index adjusted for long-term trend decreased 3 percent during December to a level 21 percent below the postwar highs reached in August, September, and October, 1950. The December index was 3 percent less than the low reached in May 1949 and was 9 percent below the long-term trend line.

Production of consumer goods during December decreased nearly 3 percent to a level 21 percent below the all-time high reached in August 1950 but was 7 percent above the figure for May 1949. All components of the index decreased except furniture, which increased 3 percent. The decreases were as follows: automobiles, 8 percent; residential contract awards, 6 percent; textiles, 2 percent; food, 1 percent.

Automobile production during December was 417,000 cars and trucks. January and February totals are estimated at 386,000 and 448,000 vehicles, 36 and 27 percent, respectively, less than those during the corresponding periods last year. If present contemplated limits on raw materials are imposed during the remainder of the year, output of passenger cars during 1952 will be 3,800,000 units. (Output in 1951 was 5,340,000 passenger cars.)

Textile production decreased 2 percent during December to the lowest level reached since September 1949. *The Wall Street Journal* comments that the present slow-down in the textile industry " * * * is the longest period of depression the industry has suffered in the post-war era and there are no signs of relief in sight yet. If anything, developments last week painted the outlook even darker."

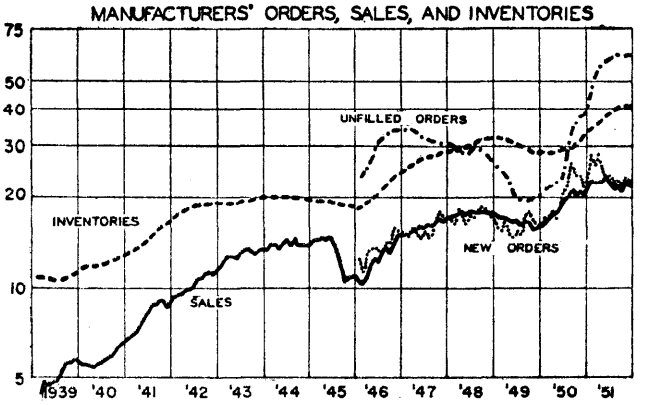
Because the October production figure probably will be replaced by a lower January figure in calculating the 3-month moving average, the January index of new consumer goods produced per capita presumably will decrease somewhat. In view of the facts that automobile production is expected to level off during the remainder of 1952 and both residential-construction activity and textile production are at relatively low levels, a further substantial decrease in the production of new consumer goods per capita seems improbable during the next several months. However, a downward trend may continue for some time.

DEMAND

Manufacturers' Orders, Sales, and Inventories

The dollar value of manufacturers' new orders, which had decreased 5 percent during November, decreased 4 percent during December to within 2 percent of the low reached in September 1951. The $21,700,000,000 worth of orders placed during December was 5 percent less than that placed during December 1950 and was 24 percent below the postwar high reached in March 1951. (Although the new-orders data have been revised by the Department of Commerce, no major changes were made.)

New orders for durable goods decreased somewhat



more than did new orders for nondurable goods. The seasonally adjusted index of new orders for *durable* goods (one of the eight "leading" statistical indicators of business-cycle changes chosen by the National Bureau of Economic Research) decreased 9 percent during December. This decrease suggests that the upward movement in the preceding 2 months may have been temporary. The December index was 39 percent below the postwar peak reached during January 1951.

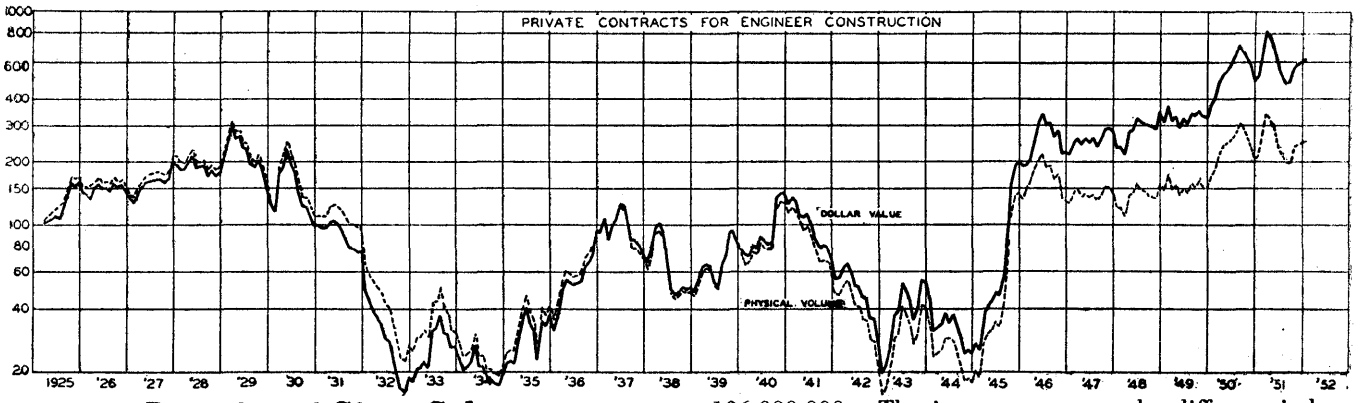
The seasonally adjusted dollar value of manufacturers' sales decreased 4 percent during December to $21,400,000,000, 2 percent greater than the total for December 1950 but nearly 9 percent less than the postwar high reached in May 1951. Sales of durable goods decreased 7 percent, compared with a 1-percent decrease in sales of nondurable goods. According to the Department of Commerce, the decrease in durable-goods sales was "partly due to unusually adverse weather conditions."

(New data recently published by the Department of Commerce enable us to show monthly sales data for the years 1939-45, rather than the yearly averages shown heretofore.)

Unfilled orders increased slightly during December and regained the peak reached in August 1951. The total was 56 percent greater than that for December 1950. Since mid-1951 the level of unfilled orders has been virtually unchanged. At the end of last November (more recent data are not yet available), the portions of the unfilled-orders total held by various durable-goods industries were as follows: transportation equipment, 33 percent; machinery, except electrical, 20 percent; primary metals, 15 percent; electrical machinery and equipment, 12 percent; fabricated metal products, 10 percent; and other industries including ordnance, 10 percent. Orders for nondurable goods represent only 8 percent of total unfilled orders.

The seasonally adjusted dollar value of manufacturers' inventories increased slightly during December to a postwar record of $41,900,000,000, 26 percent more than the figure for December 1950. The December gain was less than that during November and was the least since August 1950.

The entire increase in inventories during December was attributable to increased stocks of durable goods. Inventories of nondurable goods decreased $200,000,000 during the month. Although inventories of durable goods have been increasing steadily for more than a year, inventories of nondurable goods reached a peak in September 1951 and since then have decreased gradually.



Department-Store Sales

Department-store sales for the week ended February 9, 1952, were 4 percent more than sales in the preceding week but were 8 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1951	*1952*	
(August 1939=100)	*Feb. 14*	*Feb. 7*	*Feb. 14*
Spot-Market Prices (28 basic raw materials)	392	318	316
Commodity Futures Prces (Dow-Jones Daily Index)	i450	392	384

BUSINESS

Private Contracts for Engineering Construction

The 3-month moving average of the dollar value of private contract awards for heavy engineering construction increased 3 percent during January to a level 33 percent above the 1951 low reached last August and 20 percent above the figure for January 1951. Nevertheless, the January 1952 average was 25 percent below the all-time high reached in March 1951.

The Engineering News-Record index of construction costs was virtually unchanged during December at the all-time high first reached in September 1951. The 2-percent increase in construction costs during 1951 compared with a 10-percent increase during 1950.

The January 3-month moving average of the physical volume of private engineering construction (which is calculated by dividing the dollar volume of contract awards by the construction-cost index) increased 3 percent to a level 12 percent above that during January 1951 but 27 percent below the all-time high reached during March 1951.

Both the dollar value and the physical volume of private engineering construction reached new highs in 1951. The total dollar value of private awards during 1951 was 12 percent more than the previous record achieved in 1950. On the other hand, the estimated physical volume of construction was only 6 percent greater than the previous maximum reached during 1950 and only 9 percent above the figure for 1929. The gains during 1951 were attributable primarily to substantially more industrial construction. During 1950, industrial plants accounted for 25 percent of total construction; but the proportion increased to 55 percent during 1951.

Expenditures for new plant and equipment during 1951 increased 30 percent to an all-time high of $23,126,000,000. The increases among the different industries were as follows: manufacturing, 49 percent; railroads, 28 percent; other transportation, 18 percent; mining, 18 percent; electric and gas utilities, 15 percent; commercial, trade, and finance, 11 percent. Of total expenditures during 1951, 48 percent were by manufacturing industries.

According to a survey conducted by the McGraw-Hill Publishing Company, expenditures for new plant and equipment during 1952 are expected to exceed those during 1951 by 13 percent. The anticipated increases for the various industries are as follows: mining, 17 percent; manufacturing, 16 percent; transportation other than the railroads, 8 percent; electric and gas utilities, 7 percent; railroads, 5 percent. The survey suggests that expenditures during 1952 will be primarily by the so-called defense-supporting industries. Similar conclusions as to the extent of 1952 expenditures for new plant and equipment were reached in a *Wall Street Journal* survey based on a sample of 100 leading companies, which indicated that a 17-percent increase was expected during 1952.

As we have mentioned previously, contract awards for private engineering construction usually have led expenditures for new plant and equipment. For example, the 72-percent increase in private engineering awards during 1950 was followed by a 30-percent increase in expenditures for new plant and equipment during 1951. Presumably the increase expected in expenditures for new plant and equipment during 1952 reflects the further increase in contract awards for private engineering construction that occurred during 1951. (Approximately 75 percent of the new plant and equipment expenditures represents purchases of equipment.)

The Defense Production Administration estimates that 46 percent of the industrial expansion represented by the $9,850,000,000 of certificates of necessity issued through September 30, 1951, was completed last year. The railroad industry completed 83 percent; the aircraft industry, 67 percent; and the electrical-machinery, nonelectrical-machinery, and electric-light and power industries, 50 percent.

Apparently most of the contracts resulting from the industrial expansion approved by the DPA during 1951 already have been awarded. Moreover, the DPA will issue fewer certificates of necessity this year than it did during 1951, according to Mr. Fleischman, the administrator. Because we believe that the major portion of the plant expansion related to the rearmament program already has been contracted for, we expect contract awards for private engineering construction to decrease well below recent levels during 1952.