AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Writing on the Wall

A recent development in France may be the first indication of a return to the Gold Standard in a country that has experienced the disaster of a continually rotting currency for nearly 40 years. "The writing on the wall" was the decision of the French Government to issue a bond having its redemption value linked to the free-market value of the Napoleon, a famous French gold piece.

Although the pledge included in the new bond does not provide for direct repayment in gold, the Government promises to pay a principal sum that will vary with the free-market value of the Napoleon. Because the Napoleon is traded freely, French citizens, in effect, will be promised gold, at the maturity of the bond, equivalent in amount to that originally invested. As *The New York Times* explains, "The Pinay Government, in restoring the concept of liability to pay back debt in a form measured by the value of gold, is in effect admitting that gold is and always has been the real money standard of modern France and that it is pointless for any government to try to ignore the fact any longer."

The French decision is only a step toward the resumption of the gold standard with currency redeemable in gold on demand. In the years since the gold standard was, in effect, abandoned by France, progressive inflation has destroyed more than 99 percent of the value of the French franc. The irony of the situation is that, after jumping off the solid platform of the gold standard and wallowing in the quicksand of a depreciating currency for three decades, the French are now reaching out for the same gold standard they once considered to be a millstone around their necks.

Since the 1930's a somewhat similar course has been followed here in the United States. Faced with a severe depression that was the inevitable aftermath of a wild speculative boom and duped by the Keynesian Pied Pipers who urged that spending was the way to prosperity, the United States abandoned the gold standard and sought relief from depression ills in the opium of inflation. Although well on the road, the Nation still has some distance to travel before individual savings and life insurance will have been dissipated to the extent that they have been in France. Nevertheless, during the past two decades more than 50 percent of individual savings has been lost to those who profit from inflation.

In recent years the paper currencies of several countries have depreciated completely. Austria, Bulgaria, China, Czechoslovakia, Germany, Japan, and Poland are but a few nations whose currencies have lost all value. France, whose currency has lost 99 percent of its value in recent years, has indicated that it has "had enough" and is turning to gold in order to avoid complete repudiation of the franc. We wonder when the United States will recognize "the writing on the wall," abandon its hopeless quest for a lasting prosperity via inflationary procedures, and restore a standard of value that could prevent the perpetual depreciation of the Nation's money.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 102.3 percent of capacity for the week ended May 31, 1952, was 1 percent more than that in the preceding week and was 4 percent more than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Percent of Capacity†	95*	24*	83*	29*	103*	102p*
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.00	2.08
Production (Million Tons)	1.31	.36	1.25	.45	2.06	2.12

Automobile and truck production in the United States and Canada during the week ended May 24, 1952, was estimated at 128,388 vehicles, compared with a revised total of 129,914 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Vehicles (000 omitted)†	136	45	131	47	158	128p

Electric-power production in the week ended May 24, 1952, increased to an estimated 7,146,204,000 kilowatt-hours from 7,110,393,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Billion Kilowatt-Hours†	1.71	1.44	2.20	1.97	6.65	7.15p

Lumber production in the week ended May 17, 1952, increased. *The New York Times* seasonally adjusted index was 3 points above that for the preceding week but was 28 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
The New York Times Index†	133	41	92	82	112	84

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

Note to Subscribers: Some copies of the *Research Reports* were mailed to subscribers prior to our discovery of a printing error on page 84. The seven lines at the end of "The Harwood Index of Inflation" should have followed the next to the last paragraph in "Commodities at Wholesale." If you were one of those subscribers who received an improperly printed bulletin, we should be glad to replace it.

DEMAND

Department-Store Sales

Our preliminary estimate of the seasonally adjusted May index of department-store sales (based on dollar value) is 2 percent greater than the revised April figure. (The April figure was 1 percent less than the March figure). Estimated May sales are 2 percent more than those during May 1951 but are nearly 6 percent less than those during November 1951. From November 1951 through April 1952, sales had decreased more than 7 percent.

The index of prices of goods sold in department stores decreased slightly during April and was nearly 3 percent below the all-time high reached in September 1951. Consequently, the April index of the physical volume of department-store sales decreased less than 1 percent. The April index was 2 percent more than that for April 1951 but was 3 percent less than the average physical volume of sales during 1951.

April data for computing the potential physical volume of department-store sales are not yet available. (The potential-volume series reflects the estimated physical volume of goods available for sale in department stores, and together with the physical-volume series often reflects recent changes in inventories.) However, according to preliminary estimates based on inventories of New York stores and other data, inventories of the Nation's department stores were relatively unchanged during April.

Apparently, the Federal Reserve Board's recent removal of installment-credit restrictions (Regulation W) has not increased sales to any great extent. Of course, many retailers have made little, if any, changes in their installment-credit provisions in spite of the official removal of restrictions.

The downward trend of department-store sales during the first several months of 1952 is partially attributable to the fact that consumers are reluctant to make purchases at present prices. According to the *New York Federal Reserve Bank Bulletin*, "Consumers have shown a continued tendency to 'trade down,' that is, to shop for 'values' in terms of prices rather than quality," and " * * * sales of basement-store departments of Second District department stores during the first quarter of this year were generally more favorable * * * than sales of their upstairs counterparts." That consumers are postponing some purchases in anticipation of lower prices is reflected in the relatively large amounts of purchasing media now being held idle.

We have warned readers on previous occasions that, because of the fluctuations of department-store sales from month to month last year, comparisons of weekly sales with those of the corresponding weeks of 1951 may be misleading as an indication of *current* trends. In order to help readers interpret more accurately the week-to-week reports that appear in various newspapers and in these bulletins, we have calculated that during June an average *increase* of 1 percent in the comparisons of weekly totals with sales during the corresponding weeks of June 1951 will maintain the seasonally adjusted index at the May level.

Unless further price reductions are made, a major upward trend of department-store sales is improbable. Moreover, even if prices are lowered to some extent, a tendency of the public to wait for even greater price reductions before making major purchases might result in a continuation of the recent downward trend of sales.

PRICES

Consumers' Prices

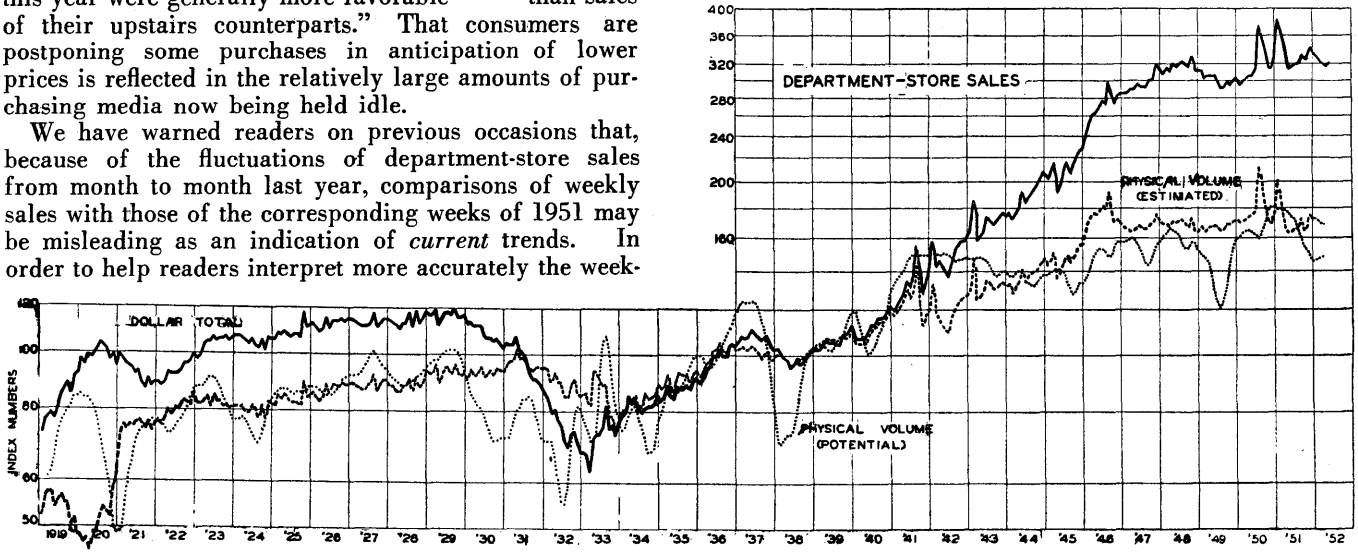
The Bureau of Labor Statistics' index of prices of goods bought by moderate-income families in large cities increased nearly 1 percent during the month ended April 15 to a level slightly below the all-time high reached in January 1952. The April index was 11 percent higher than that at the beginning of the Korean War in June 1950.

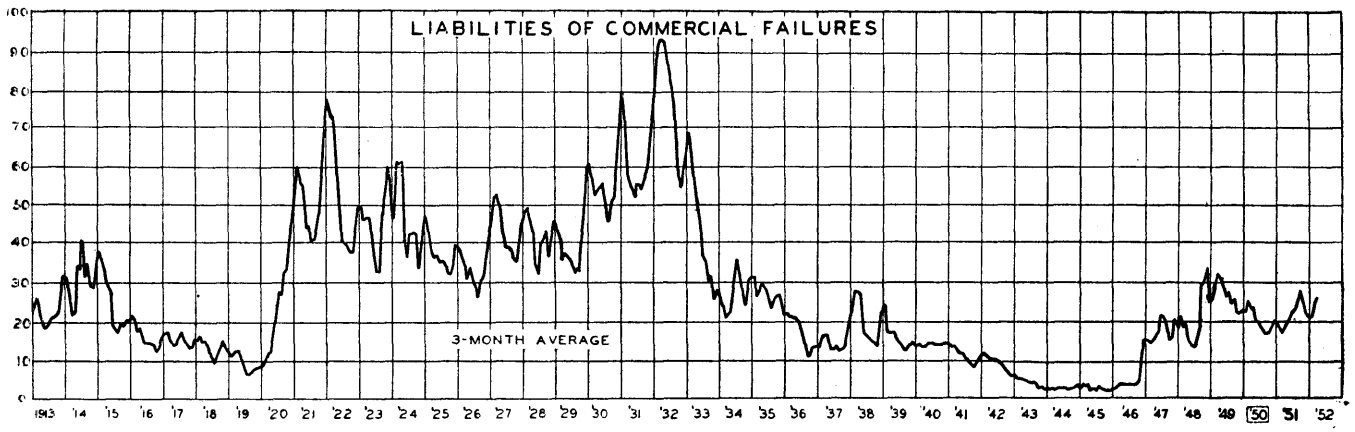
(The Bureau of Labor Statistics compiles and publishes two sets of consumers' price indices, designated the "old" and "new." Until the final revisions of the new index are made, the index discussed in these bulletins will be the "old" series.)

During April relatively minor price increases were reported for food products, miscellaneous goods and services and residential rents. These increases more than counterbalanced decreases in apparel and housefurnishings prices. Prices of fuel, electricity, and refrigeration were virtually unchanged during April.

The Bureau of Labor Statistics publishes consumers' price indices for 34 selected cities. Unfortunately, those indices are not directly comparable because, during the periods on which the indices are based, prices in the various cities were not the same. However, from time to time, the Bureau publishes the cost of the same "market basket" of goods and services in each of the various cities for which indices are made. We thus are able to weight the published indices in such a manner that the indices can be compared directly.

We have divided the 34 cities into five groups, which range from the cities in which consumers' prices were





the highest in the first quarter of 1952 to those in which prices were the lowest. The groups are as follows: highest, Milwaukee, San Francisco, Washington, D. C., Atlanta, Houston, Los Angeles, Richmond, Jacksonville; above average, Seattle, Pittsburgh, Baltimore, Denver, Minneapolis, Memphis; average, Boston, Detroit, Chicago, Birmingham, St. Louis; Cincinnati, Norfolk, Portland (Oregon); below average, Buffalo, Philadelphia, Portland (Maine), Savannah, Cleveland, Manchester; lowest, New York, Kansas City, Scranton, Indianapolis, Mobile, and New Orleans. Prices in Milwaukee were 14 percent higher than those in New Orleans.

We believe that the failure of the consumers' price index to decrease during 1951 is attributable to certain defects in the procedures used.[1] *There is little question that prices actually charged consumers at retail levels have decreased somewhat in recent months. Moreover, we expect further decreases to occur during the next several months as retailers attempt to stimulate sales.*

Commodities at Wholesale

	1951	*1952*	
(August 1939=100)	*May 28*	*May 22*	*May 28*
Spot-Market Prices (28 basic raw materials)	361	298	297
Commodity Futures Prices (Dow-Jones Daily Index)	400	368	367

BUSINESS

The Trend of Commercial Failures

The liabilities involved in commercial failures during April totaled $29,500,000, 1 percent more than those during March and 73 percent more than those during April 1951.

The number of failures in April was 780, compared with 715 in March and 693 in April 1951.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of commercial-failure liabilities. The March average increased 4 percent to a level 24 percent above the low reached in December 1951 and was 54 percent above the average for April 1951. The most recent upward trend of failures has been under way since December 1951. Apparently, unusually large Federal income-tax payments were primarily responsible for the greater-than-seasonal increase of failures during the first quarter.

A break-down of liabilities of commercial failures during March reveals that the manufacturing and mining industries accounted for 45 percent of the total, compared with only 30 percent during the first 2 months of 1952. The increased failures in manufacturing industries followed an increase in retail-trade failures during January and February and an increase in wholesale-trade failures during February.

The fact that business firms had to pay a relatively large portion of their 1951 tax liability during the first quarter of 1952 probably was a major reason for the greater-than-seasonal increase in failures during those months. Moreover, equally large tax payments during June may result in even more failures than are usually expected during the second quarter of the year. Later in 1952, however, when tax payments are relatively less, a reversal of the present upward trend would not be surprising. If business fails to improve during the remainder of 1952, we should expect that failures will be large again during the first half of 1953, when 80 percent of the 1952 tax liability will be due.

FINANCE

New Capital Issues

New corporate financing during the first 2 months of 1952 (more recent data will not be available for some time) was 45 percent more than that during the corresponding period of 1951 but was 6 percent less than the total for January and February 1948. Preliminary estimates for March, April, and May 1952 suggest that new corporate issues during those months were at near-record levels.

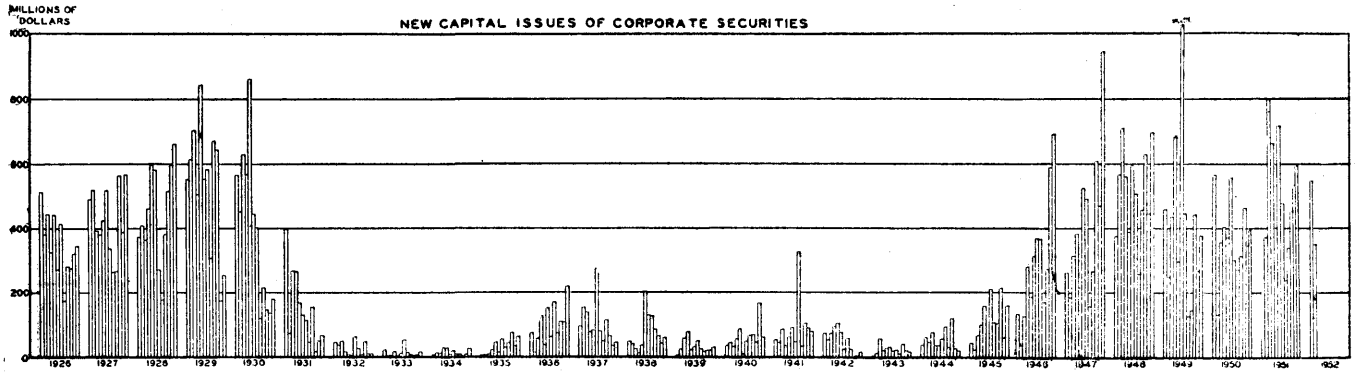
The largest single issues reported thus far during 1952 are as follows: American Telephone and Telegraph Company, $500,000,000; and Firestone Tire & Rubber Company, $75,000,000.

New corporate financing during 1951 was 36 percent more than that during 1950, but was 3 percent less than the postwar peak reached in 1948, and 5 percent less than the all-time record established in 1929. The total value of new capital issues during 1951 was $6,080,000,000, compared with $4,475,000,000 during 1950, and $6,254,000,000 during 1948.

The largest single issues during 1951 included the following: American Telephone and Telegraph Company, $415,000,000; Westinghouse Electric Corporation, $125,000,000; Goodyear Tire & Rubber Company, $100,000,000; Celanese Corporation of America, $88,752,000; and Kaiser Aluminum and Chemical Corporation, $75,000,000.

The data shown on the accompanying chart include stocks and short- and long-term bonds and notes newly

[1]See "Consumers' Prices," May 15, 1952, *Research Reports.*



issued by railroads, public utilities, processors of natural resources (such as iron, steel, and coal), equipment manufacturers, motor and accessories producers, other industrial and manufacturing companies, oil producers, rubber processors, shipping companies, builders, land purchasers, and a miscellaneous group that includes finance companies and retail outlets. The new issues of investment trusts and trading and holding companies are excluded because the funds such organizations receive ordinarily are invested in other securities rather than in new capital facilities.

The proportion of the total value of new securities issued by major industries during 1951 were as follows (in parentheses are the corresponding percentages for 1950): public utilities, 46 (58) percent; other industrial and manufacturing, 31 (11) percent; miscellaneous, 6 (12) percent; iron, steel, coal, copper, etc., 5 (6) percent; and railroads, 5 (8) percent.

A further comparison reveals that new securities issued by industrial and manufacturing industries during 1951 were 3 times the 1950 total; nearly 80 percent of the increase in new capital issues during 1951 was attributable to manufacturing industries. New securities issued by public utilities during 1951 exceeded the 1950 total by only 25 percent. The increased proportion as well as the increased amount of new securities issued by industrial and manufacturing industries reflects the expansion of the Nation's industrial facilities since the outbreak of the Korean War.

The data shown on the accompanying chart include both the corporate issues placed privately with institutions such as life-insurance companies, trust funds, educational institutions, etc., and those placed publicly through underwriters. During the 1920's the volume of financing through private channels was relatively small; but, beginning in the 1930's, the proportion of total financing privately placed increased and for several years has been as much as one-third of the total. During 1951 privately placed flotations accounted for 42 percent of all corporate financing, compared with 55 percent during 1950.

The amount of privately placed issues increased substantially in the second quarter of 1951, when bond prices declined sharply after the Federal Revenue System ended, temporarily at least, its support of Government-bond prices in the spring of 1951.

During the period 1935-39 new capital issues totaled 16 percent of expenditures for new plant and equipment. However, during 1946-50 the value of new capital issues was 29 percent of the expenditures for new plant and equipment. During 1951 this percentage decreased to 26 percent. The increased importance of new capital issues as a means of financing expenditures for new plant and equipment may be explained as follows: the cost of expansion of industrial plant during 1946-52 exceeded the funds available from internal sources such as retained profits; moreover, progressive inflation after World War II substantially lowered the purchasing power of depreciation funds. (Most of these funds were based on the substantially lower prewar prices.)

Of course, larger depreciation funds, which presumably will result from the installation of capital at the relatively high prices of recent years, will make possible an increased amount of internal corporate financing if commodity prices continue to decrease. Moreover, the 5-year amortization authorized for certain "defense" industry expansion programs will tend to increase depreciation funds substantially during the next 5 years. In view of the increasing value of depreciation funds and in view of the expected decline in expenditures for new plant and equipment during the next few years, we believe that the percentage of new capital issues to total expenditures for new plant and equipment may return to the prewar ratio.

Since the end of World War II, new capital issues have been offered in advance of actual expenditures for plant and equipment (instead of being used as a means of replacing funds previously expended from working capital). Consequently, Department of Commerce estimates of 1952 expenditures for new plant and equipment may provide a clue as to the trend of new capital issues. According to the plans of businessmen in February and March 1952, expenditures for new plant and equipment during 1952 are to reach about $24,000,000,000. If 26 percent of the funds necessary for these expenditures are obtained from new capital flotations (as during 1951), new capital issues during 1952 would be nearly $6,300,000,000, somewhat more than the 1951 total.

According to a Federal Reserve Board survey, corporations may incur a substantial amount of long-term obligations between now and the end of the year. The reasons given for such a development included the following: great outlays for new plant and equipment will be made, a decline in business liquidity has occurred since the beginning of the Korean War, and corporations desire to make "more-or-less permanent" additions to working capital.

Because of the large outlays for new plant and equipment, no substantial decrease in new capital issues is probable during 1952. However, we believe that a peak probably has been reached and a downward trend has begun that may be accentuated during the next several years.