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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Executive Power of the President

The recent decision of the Supreme Court, which voided the Government's seizure of the steel industry, has somewhat clarified the constitutional limitations on the President of the United States. Of course, separation of executive, legislative, and judicial powers has been one of the basic principles of the American form of government. However, from time to time, as in the present case, the courts have had to rule on whether or not some particular action of the President was an appropriate executive function.

According to the mill owners, the President's seizure order was, in effect, lawmaking, a legislative function. This contention was upheld by the majority opinion, which said, "The President's order does not direct that a Congressional policy be executed in a manner prescribed by Congress—it directs that a Presidential policy be executed in a manner prescribed by the President. * * * [However,] the founders of this nation entrusted the law-making power to the Congress alone in both good times and bad. * * * [Consequently,] this seizure order cannot stand."

The Court minority was of the opinion that the action did not constitute lawmaking, but that the action taken by the President was simply intended to execute laws already enacted by Congress. Two shortcomings of the minority opinion seem clear to us.

First, the minority asserts, "The President took temporary possession of the steel mills as the only course open to him consistent with his duty to take care that the laws be faithfully executed." The basis for such a belief is the earlier minority statement that "When the President acted on April 8, he had exhausted the procedures for settlement available to him. Taft-Hartley was a route parallel to, not connected with, the W. S. B. procedure." In other words, the minority contended that as soon as one of two possible procedures had been adopted by the President, the remaining alternative (application of the Taft-Hartley law) was no longer possible. Such reasoning is difficult to follow. If one course of action prescribed by Congress has failed, why not try the other?

Second, the minority opinion seems to assert, in effect, that until specific congressional direction is provided, the President in an "emergency" may execute already existing laws by any means whatsoever, even where those means involve new policies and unauthorized procedures. The scope of the "executive" function implicit in such a belief is virtually unlimited. "Emergencies," real or synthetic, could be used as a means of implementing administrative policies that do not have the sanction of Congress.

The significance of the Court's decision with reference to the separation of powers between the executive and the legislative branches seems to be as follows: According to the majority opinion, the Chief Executive is to carry out the laws of Congress only *in accordance with* laws already in existence; otherwise he is engaging in lawmaking and is thus overstepping the bounds of his office. Moreover, this distinction between the executive function and the legislative function is basically unchanged during periods of war or other emergencies.

We already have indicated that "the seizure of the steel industry is a clear illustration of the threat of complete dictatorship inherent in a society that has substituted governmental 'planning' for free or nearly free markets in making its economic decisions regarding the allocation of resources and rewards to the various factors of production. If communism ever is to be eliminated, the Nation cannot afford to practice it at home under the guise of its being 'essential to our national defense.' Such a procedure will lead only to our eventual wholehearted joining of the counterrevolution against individual freedom."[1] *The Supreme Court decision sustaining the district court probably will at least retard the trend toward an ever more powerful Federal Government and the loss of individual freedom in this country.*

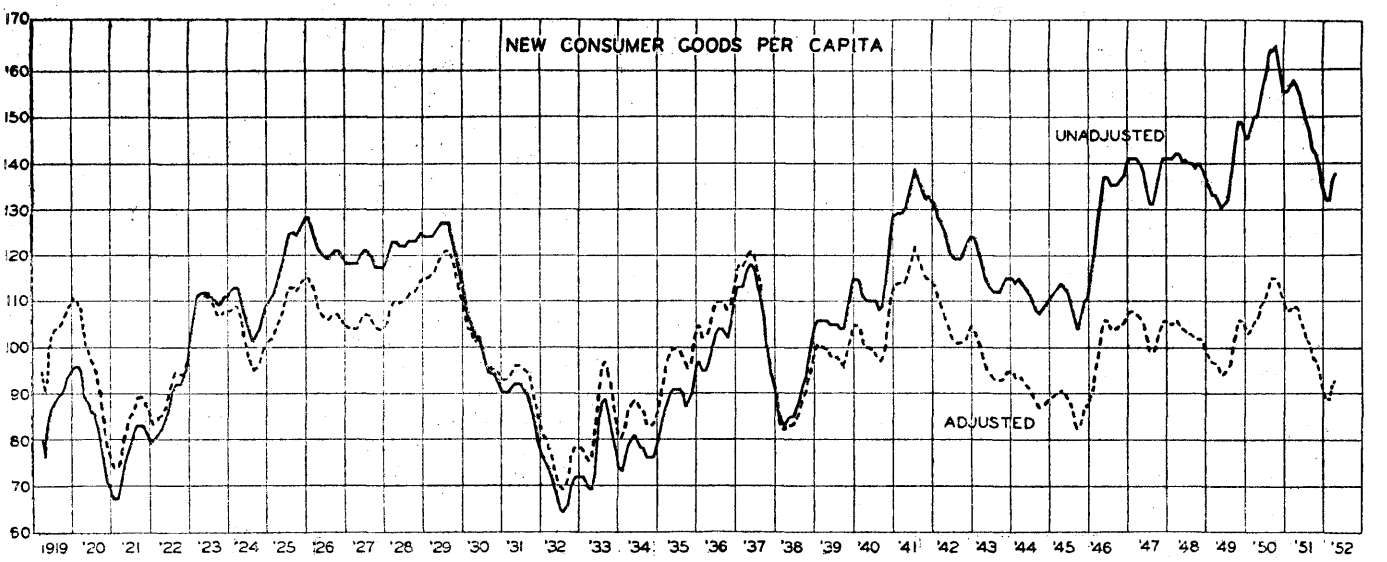
SUPPLY

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita (a 3-month moving average), unadjusted for long-term trend, increased slightly more than 1 percent during April to a level 5 percent above the low reached in January 1952. The April index was 12 percent below that of a year ago and 16 percent below the all-time high reached in October 1950.

The index adjusted for long-term trend increased 1 percent during April. Since January 1952 the adjusted index has increased nearly 5 percent but is 19 percent

[1] "The Greater Danger," *Research Reports*, April 21, 1952, page 62.



below the postwar peak reached in August, September, and October, 1950. The April index is 7 percent below the long-term-trend line.

Production of consumer goods decreased nearly 1 percent during April to a level 16 percent below the postwar high reached in August 1950. Automobile production and residential-contract awards increased 10 and 4 percent respectively but were more than counterbalanced by the following decreases: textile production, 5 percent; food production, 2 percent; and furniture output, 1 percent. During the last 3 months production of consumer goods has leveled off. (However, the leveling off has been at a level higher than that of production during the months that are being replaced in the calculation of the 3-month moving average; consequently, the indices shown on the chart have increased recently.)

Automobile production during April was 414,000 cars and 96,000 trucks, 20 percent less than total production during April 1951. Estimated May output of cars is 400,000 units. Scheduled output during June is about 425,000 cars, approximately 150,000 cars more than the number permitted under the NPA's original second-quarter quota of 1,090,000 units. Recent relaxation of NPA restrictions makes the increase possible.

Approximately 108,000 new dwelling units were started during April, compared with 98,500 units started during March and 96,200 units in April 1951. The number of dwelling units started during the first 4 months of 1952 was 348,400, 2 percent less than the number started during the corresponding months a year ago.

Furniture production has been relatively unchanged during the first 4 months of 1952. However, newspaper reports suggest that some increase in activity may have started. The improvement has been attributed to the larger than anticipated increase in building activity and the removal of credit restrictions on installment buying.

Textile production during April was at the lowest level since August 1949. Apparently defense ordering has had a major influence on operations during the last 2 years. At the beginning of the Korean War in June 1950 the Government made large textile contracts for defense purposes, thus helping to perpetuate a boom in the textile industry for 10 months. However, in March 1951 the Government reduced textile orders substantially. Thereafter, operations in the industry were curtailed slowly, until excessive inventories forced more drastic reductions. From June 1950 through April 1952, production decreased 25 percent.

Food production, which is heavily weighted in the consumer-goods index, usually does not change much from month to month. However, production thus far in 1952 has been slightly less than that during the corresponding period of 1951.

Because the February production figure probably will be replaced by a nearly equal May figure in calculating the 3-month moving average, the May index of new consumer goods produced per capita probably will be relatively unchanged. There is little evidence that the recent upward trend of our index of new consumer goods per capita will continue during the next several months.

Industrial Production

Because of the strike in the steel industry, steel-ingot production during the week ended June 7, 1952, was curtailed substantially. However, the extent of the curtailment is not yet known.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Percent of Capacity†	95	23*	75	26	103	NA
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.00	2.08
Production (Million Tons)	1.31	.35	1.13	.40	2.06	NA

Automobile and truck production in the United States and Canada during the week ended May 31, 1952, was estimated at 103,722 vehicles, compared with a revised total of 127,723 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Vehicles (000 omitted)†	111*	47	131	45	122*	104*p

Electric-power production in the week ended May 31, 1952, decreased to an estimated 6,810,727,000 kilowatt-hours from 7,146,204,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
Billion Kilowatt-Hours†	1.62*	1.43	2.21	1.97	6.44*	6.81*p

Lumber production in the week ended May 24, 1952, increased. *The New York Times* seasonally adjusted index was 15 points above that for the preceding week but was 16 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1951*	*1952*
The New York Times Index†	130	42	94	79	115	99

†Latest weekly data; corresponding weeks of earlier years
p=preliminary; *holiday; NA=Not Available

DEMAND
Purchasing Media

The total purchasing media available increased $1,200,000,000 during May to $108,000,000,000. (Additional data were received too late to revise the accompanying chart, which shows a slight decrease during May.) An increase during May is usual; the total has increased during May in each of the last 6 years. The total at the end of May was $7,260,000,000 more than that of a year ago.

Purchasing media derived from the first source, monetary gold, were virtually unchanged during May.

Purchasing media derived from the second source, commercial, industrial, and agricultural loans, decreased $370,000,000 during May to $28,120,000,000. (These data were revised recently; consequently, the May figure is not comparable to figures published in previous issues of the *Research Reports.)* The decrease was substantially less than the seasonally expected May decrease of $1,140,000,000. Loans to manufacturers of foods and liquors and those to commodity dealers continued to decrease during May, and loans to manufacturers of metals and metal products continued to increase slightly.

We estimate that inflationary commercial, industrial, and agricultural loans decreased in April to $3,800,000,000 (the peak of inflationary loans apparently was $5,500,000,000 in June 1951.)[2]

Purchasing media derived from the third and fourth sources, both of which are inflationary, increased nearly $1,600,000,000 during May, compared with an increase of $1,800,000,000 during April. Inflationary purchasing media at the end of May exceeded by $4,000,000,000 the total at the end of May 1951.

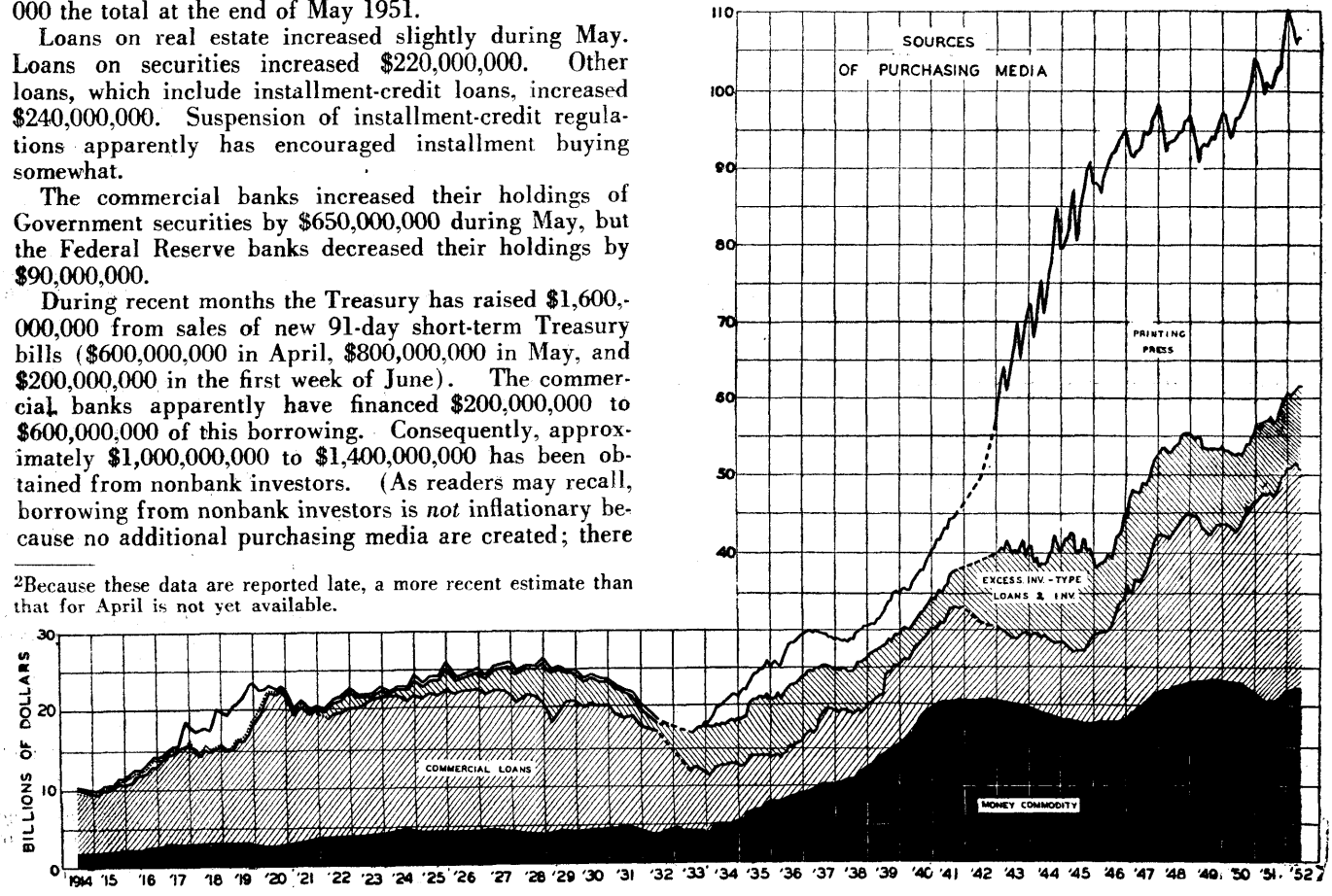
Loans on real estate increased slightly during May. Loans on securities increased $220,000,000. Other loans, which include installment-credit loans, increased $240,000,000. Suspension of installment-credit regulations apparently has encouraged installment buying somewhat.

The commercial banks increased their holdings of Government securities by $650,000,000 during May, but the Federal Reserve banks decreased their holdings by $90,000,000.

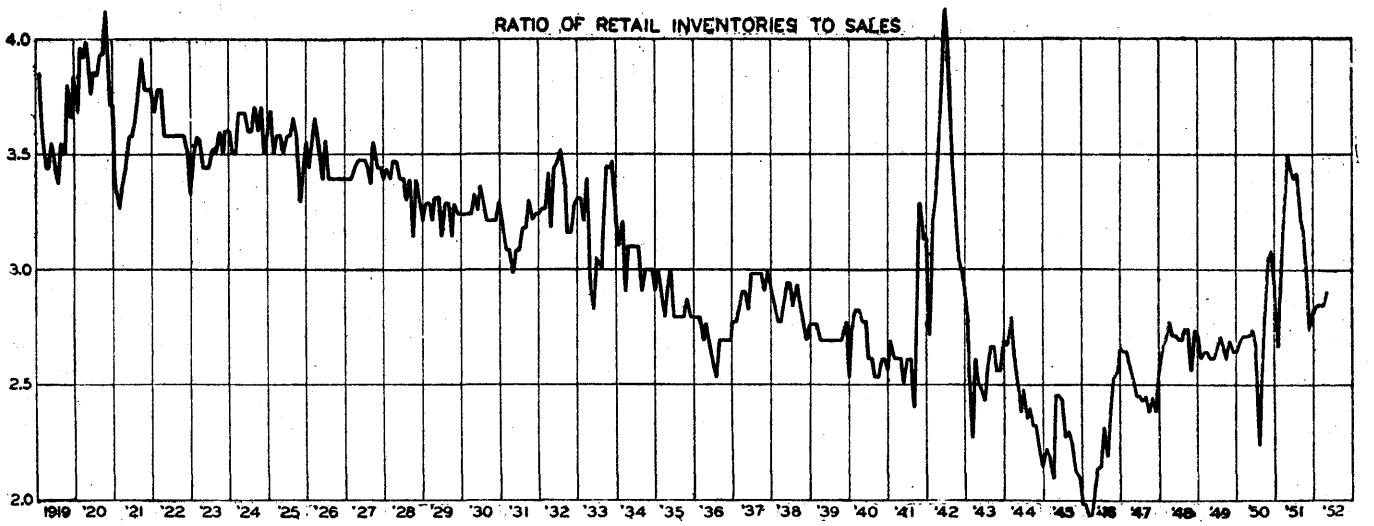
During recent months the Treasury has raised $1,600,000,000 from sales of new 91-day short-term Treasury bills ($600,000,000 in April, $800,000,000 in May, and $200,000,000 in the first week of June). The commercial banks apparently have financed $200,000,000 to $600,000,000 of this borrowing. Consequently, approximately $1,000,000,000 to $1,400,000,000 has been obtained from nonbank investors. (As readers may recall, borrowing from nonbank investors is *not* inflationary because no additional purchasing media are created; there is merely a transfer of funds from nonbank investors to the Government.) Apparently the Treasury will offer $200,000,000 of new Treasury bills nearly each week during June and July until a total amount of $3,400,000,000 has been obtained.

In addition to the funds already obtained and those expected to be obtained through the sale of additional short-term Treasury bills, the Treasury hopes to receive from nonbank investors an additional $1,000,000,000 to $1,500,000,000 from the sale of 2¾-percent nonmarketable Treasury bonds now being offered. (These bonds may be purchased on the basis of 25 percent in cash and 75 percent in exchange for maturing 2½-percent Treasury obligations.) Thus far only $300,000,000 in new money has been obtained from the sale of these bonds.

An article in the May *Federal Reserve Bulletin* presented the results of a special study on the ownership of demand deposits. According to the survey, on January 31, 1952, demand deposits were distributed as follows: domestic businesses, 59 percent; individuals (farmers included), 35 percent; and "other holders" (trust funds, nonprofit associations, and foreigners), 6 percent. Since the end of World War II there has been relatively little change in the share of demand deposits held by the various groups. However, during the war (from December 31, 1941, through January 31, 1946) a significant change occurred. The portion of demand deposits held by domestic businesses decreased from 66 to 61 percent; that held by individuals increased from 25 to 33 percent; and that held by other holders decreased from 9 to 6 percent. The change apparently was attributable to the substantial curtailment of consumer-goods production during the war, which forced many consumers to post-



[2]Because these data are reported late, a more recent estimate than that for April is not yet available.



pone their usual purchases.

Treasury cash receipts during June may exceed expenditures by $500,000,000 *to* $2,000,000,000. *(Uncertainty as to the amount of tax-savings notes to be turned in for June tax payments makes a more accurate estimate difficult.) Consequently, the purchasing-media total may decrease somewhat during June. If the Treasury succeeds in borrowing substantial amounts from non-bank investors during the second half of the year, a sharp increase in purchasing media comparable to that during the second half of 1951 may be avoided. However, by the end of the year, the amount of purchasing media probably will be at least as great as that at the end of December 1951.*

Department-Store Sales

Department-store sales for the week ended May 31, 1952, were 9 percent less than sales in the preceding week but were 1 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1951	*1952*	
(August 1939=100)	*June 5*	*May 29*	*June 5*
Spot-Market Prices (28 basic raw materials)	357	297	294
Commodity Futures Prices (Dow-Jones Daily Index)	398	369	369

BUSINESS

Ratio of Retail Inventories to Sales

The ratio of retail inventories to sales increased nearly 3 percent during April. Since November 1951, when the recent upward trend began, the ratio has increased 6 percent. The April ratio was 16 percent below that for April 1951, when a postwar peak was reached.

The seasonally adjusted index of department-store inventories increased nearly 2 percent during April, but the seasonally adjusted index of department-store sales decreased 1 percent. Consequently, the ratio increased 3 percent (the ratio is derived by dividing the inventory index by the sales index). Inventories at the end of April were 15 percent less than those at the end of April 1951, when the postwar peak was reached. However, since November 1951 inventories have been relatively unchanged.

On the basis of preliminary data, we have estimated that the seasonally adjusted index of department-store inventories probably was unchanged during May. On the other hand, we have estimated that sales during May increased 1 percent. Consequently, the ratio of inventories to sales may have decreased slightly during May.

The dollar value of new orders placed by department stores decreased 10 percent during April, slightly less than that seasonally expected. A decrease during April is usual; in 10 of the last 12 years the dollar value of new orders has decreased during that month. However, the average decrease has been 15 percent.

The dollar value of outstanding orders at the end of April was 17 percent less than that at the end of March and was 18 percent less than that at the end of April 1951. The dollar value of outstanding orders at the end of April was the lowest since May 1950, prior to the Korean War.

The value of goods received by department stores decreased 9 percent during April. Moreover, receipts of goods usually continue to decrease (or increase) for at least 1 or 2 months after a decrease (or increase) in outstanding orders. Consequently, in view of the decrease in outstanding orders during March and April, we expect a further decrease in the volume of goods received by department stores during May and possibly June.

The recent downward trend of department-store sales has prevented retailers from improving their inventory-to-sales ratios, in spite of the fact that inventories have remained relatively unchanged for several months. Consequently, according to *The New York Times*, "A merchandising campaign featuring low prices will be launched next month [June] by independent department stores throughout the country in an effort to overcome consumer resistance, reduce large inventories and reverse the recent sluggish sales trend in the retail field."

Compared with pre-Korean War levels, the present level of the ratio of retail inventories to sales is relatively high. Although the ratio decreased substantially during the latter months of 1951, the decrease was not large enough to eliminate entirely the excessive amount of inventories that had been accumulated earlier as a result of retailer scare buying. Unless price reductions during the next several months are large enough to increase sales substantially, return of the ratio to pre-Korean levels is improbable.