

AMERICAN INSTITUTE for ECONOMIC RESEARCH

WEEKLY
BULLETIN

September 1

GREAT BARRINGTON

MASSACHUSETTS

1952

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Devaluation Rears Its Head

There have been several indications during recent weeks that efforts are being made to bring about a second devaluation of the dollar. The indications range from rumors to significant developments that seem somewhat more than pure coincidence.

According to Melchoir Palyi in *The Commercial and Financial Chronicle* (July 31, 1952), "Actually, rumors circulate in London (and in Canada) that at least one Presidential aspirant, a very outstanding one, has committed himself to the Plan: to devalue the dollar * * *."

Recent reports from France (*The Wall Street Journal*, August 14, 1952) revealed that "demand for gold was heavy in Paris, due partially to hopes in some quarters that steps might be taken at forthcoming meetings of the International Monetary Fund to raise the present world gold price of \$35 an ounce."

The National City Bank of New York *Monthly Letter* states that there is "A belief in many quarters that the price of gold is too low and will have to be raised * * *."

There is also *The Statist's* (London) observation that "the persistence of the demand for Canadian dollars appears to have caused some surprise in the Dominion itself. It has been pointed out there that there have been no new developments in the Canadian economic situation to justify the recent marked increase in the demand for the Dominion's dollar." And there is *The Wall Street Journal's* recent comment, "The Canadian dollar rose to \$1.0434 in New York foreign exchange markets, its highest point in 18 years. * * * In 1934, when the U. S. was about to advance its buying price for gold to \$35 an ounce, the Canadian dollar was quoted at a premium of more than five cents over the U. S. dollar."

Moreover, in recent months we have noted at least two public statements by responsible individuals that an objective re-examination of the price of gold would be desirable, a re-examination directed toward a higher price.

Is There Any Reason to Devalue at This Time?

A reason given frequently in recent years for advocating devaluation in other countries has been in order to increase exports and decrease the "dollar gap." Temporarily, at least until prices completely readjust to the devaluation, prices of goods in the country where devaluation has occurred become relatively favorable from the viewpoint of foreign buyers and exports are stimulated.

As we have indicated many times, such a stimulus is artificial and short-lived. The problem of living beyond one's means is not solved by devaluation.¹ Moreover, the United States is not faced with the problem of increasing its exports even temporarily.

The pressure of gold-mining interests, especially those in South Africa, is understandable. The gold-mining industry is confronted with a situation in which the number of dollars in a given weight of its product has remained unchanged during a period when inflation has raised its costs substantially. According to *The New York Times* (August 25, 1952), "Financial observers point out that South Africa, the world's largest gold producer, has repeatedly urged the [International Monetary] fund to adopt a general price increase." Although the "silver bloc" in Congress in recent years has managed to pass legislation favorable to the silver interests, there is little indication that the gold-mining industry is in as strategic a position.

Perhaps the most ingenious reason offered for a second devaluation is that described by Palyi in the article mentioned earlier. The plan is to devalue the dollar and lend the dollars thus created to European countries in need of additional gold reserves. On the surface and to those confused by monetary matters, the scheme seems to make possible more aid to Europe at no cost to American taxpayers. Europe would thus gain larger gold reserves at no apparent cost to the United States.

The plan ostensibly is to facilitate international convertibility of currencies by loaning enough United States gold so that other countries can meet demands for gold. We question whether a loan of gold can serve this purpose. Presumably those advocating the scheme hope that the resulting improvement in trade with the United States would be so great that other countries eventually would earn enough gold to repay the loan. However, we believe that as means of enabling foreign countries to earn gold, there are more desirable alternatives than devaluation. In particular, we should recommend the abolition of protective and discriminatory United States tariffs and the elimination of inflationary practices within the foreign countries concerned.

Because of the relative strength of the dollar among the countries of the world, we believe that a devaluation of the dollar, especially at this time, would result in such confusion and disruption throughout the world that

¹See the article "Devaluation," *Research Reports*, September 26, 1949.

a return to international monetary sanity would be postponed beyond the foreseeable future.

Conclusions

Probably the greatest value of a standard is the very fact that it does not change, that it will be the same yesterday, today, and tomorrow. To change a standard, whether of length, weight, or value, is to destroy its primary function in some degree.

Unfortunately, economic values are not easily measurable. For many centuries men have accepted gold as a measure of economic value and have been able to measure relative values through the medium of gold. But the ability to measure relative values becomes extraordinarily difficult during periods of inflation. Relationships among goods and services are so greatly distorted that the proper functioning of gold as a standard is seriously disturbed. The wisdom of changing the standard of value at any time is questionable; to change it during a period of such confusion among values as exists today might be dangerous.

*There have been rumors that the dollar value of gold may be increased at the present meeting of the International Monetary Fund. However, such a development does not appear possible. An increase may be suggested or even recommended; but, according to the Bretton Woods Agreement Act, "Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States * * * propose or agree to any change in the par value of the United States dollar * * * or approve any general change in par values."*

Moreover, we do not believe pressures to bring about devaluation have progressed to the stage where readers need be alarmed about the possibility of a devaluation of the dollar in the near future. However, developments during the next several months should be watched carefully. If the value of the Canadian dollar continues to increase at recent rates, if an unusually large outflow of gold from the United States occurs, and if black-market dollar prices for gold increase substantially, we should suspect that the proponents of devaluation were nearing their goal and that prompt public action would be necessary in order to avert a second devaluation of the dollar.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 98.7 percent of capacity for the week ended August 30, 1952, was 2 percent more than that in the preceding week and was 3 percent more than production in the corresponding week last year.

	1929	1932	1937	1938	1951	1952
Percent of Capacity†	89	14	84	44	100	99p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.00	2.08
Production (Million Tons)	1.23	.21	1.27	.68	2.00	2.06

Automobile and truck production in the United States and Canada during the week ended August 23, 1952, was estimated at 110,639 vehicles, compared to a revised total of 36,890 vehicles during the previous week.

	1929	1932	1937	1938	1951	1952
Vehicles (000 omitted)†	118	25	93	24	139	111p

Electric-power production in the week ended August 23, 1952, increased to 7,718,084,000 kilowatt-hours from 7,626,608,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1951	1952
Billion Kilowatt-Hours†	1.75	1.43	2.30	2.14	7.08	7.72

Lumber production in the week ended August 16, 1952, increased. *The New York Times* seasonally adjusted index was 5 points above that for the preceding week and was 7 points above that for the corresponding week last year.

	1929	1932	1937	1938	1951	1952
<i>The New York Times</i> Index†	129	36	92	90	109	116
†Latest weekly data: corresponding weeks of earlier years						
p=preliminary						

Steel-Ingot Production vs. Prices of Metals and Metal Products

Output of steel ingots and steel castings during August was approximately 8,400,000 tons, 4 percent less than production during the corresponding month last year. Output during June and July was 1,639,000 and 1,605,000 tons respectively. The industry's operating rate during August was estimated at 91 percent of theoretical capacity, compared with 18 percent during June and July.

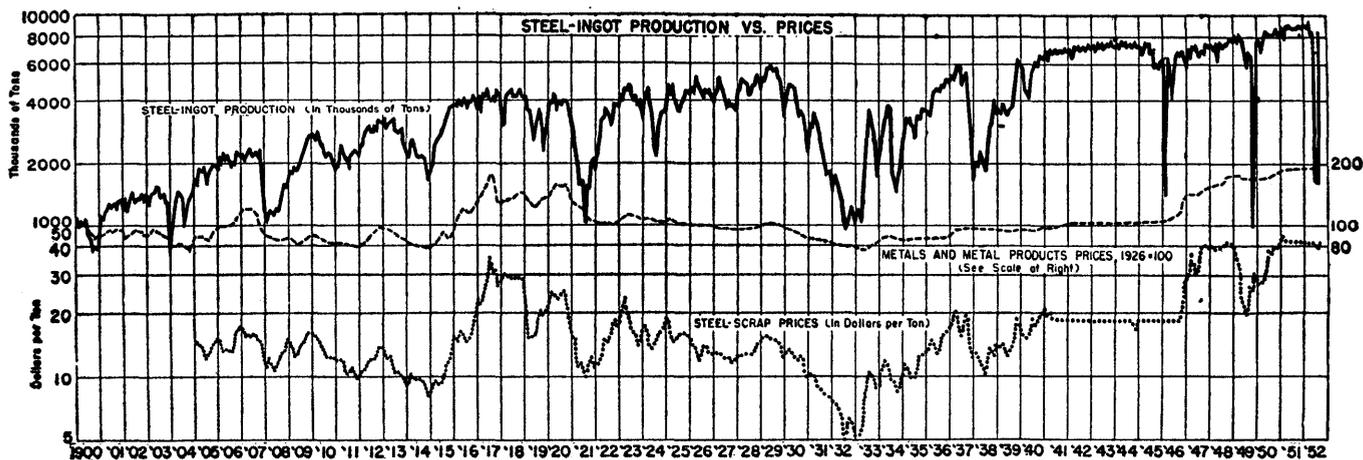
Steel-ingot production during the first 8 months of 1952 was approximately 55,040,000 tons, compared with 69,727,000 tons produced during the corresponding period of 1951. The curtailment during 1952 is attributable, of course, to strikes.

The steel strike lasted 53 days, from June 2 through July 24, 11 days longer than the previous major strike in 1949. The loss of steel production attributable to the strike is estimated to have been nearly 16,000,000 tons, compared with an approximate loss of 9,000,000 tons during the 1949 strike. (These losses are estimated by assuming that the industry would have maintained the prestrike level of operations during the strike.) The loss in wages is estimated to have been \$350,000,000, or nearly \$600 a worker, compared with a loss of \$200,000,000 during the 1949 strike. Additional losses in wages were reported in the steel-fabricating and related industries, which were forced to curtail production and lay off about 1,400,000 workers. Moreover, the steel strike was primarily responsible for an over-all slow-down of general business activity. Our index of industrial production decreased 5 percent during June and 3 percent during July.

Thus far, operations have not completely regained prestrike levels. The rate of production during the fourth week after resumption of production was 5 percent less than the prestrike rate of 102 percent of theoretical capacity. During the poststrike periods in 1949 and 1946 production returned to prestrike levels after 4 and 3 weeks respectively. Prestrike rates in 1949 and 1946 were 85 and 77 percent of theoretical capacity, respectively.

According to defense officials, the steel strike affected military production substantially, but because of the unavailability of military-production data, we are unable to ascertain the extent of the curtailment attributable to the lack of steel. John R. Steelman, head of the Office of Defense Mobilization, declared that "The effects of the steel stoppage will be felt heavily for the next three to six months, and will not be completely worked out of the military production program for an entire year." We believe that this statement may reveal the pessimism and exaggeration characteristic of some Government officials in charge of the defense mobilization program.

The National Production Authority has ruled that defense orders (those in support of military, atomic



energy, and machine tool programs) that were to be delivered prior to the fourth quarter are to be delivered not later than November 30, 1952. Another order, effective October 1, requires producers of iron and steel products to use approximately 20 percent of their current steel production to fill military, atomic-energy, machine-tool, and military-component orders.

Steel inventories of both consumers and producers were decreased substantially during June and July. According to the American Steel Warehouse Association, steel-warehouse inventories on August 1, 1952, were only 36 percent of those held on September 1, 1949. In order to promote a sufficient flow of steel for current production, the National Production Authority has forbidden steel users to accumulate inventories in excess of 30 days' supply (the former limit was 45 days' supply).

Transports of iron ore from the Mesabi Range to the steel mills in the East were cut off during the steel strike as a result of a sympathy strike of Great Lakes fleet workers. According to *The Iron Age*, " * * * something like 21 million tons of Lake ore shipping have been lost over recent weeks." The same source indicates that " * * * this loss of shipping may not be as serious as it looks." The three reasons given include the following: first, most furnaces were closed down for 2 months and thus required no ore; second, a larger number of water carriers will be in service for the remainder of the season; and third, rail shipments of ore are expected to be increased.

According to United Nations statistics, world output of steel during 1951 was 230,512,000 tons. The major producers of steel were as follows: United States, 105,140,000 tons (46 percent); Russia, 34,500,000 tons (15 percent); United Kingdom, 17,520,000 tons (8 percent); West Germany, 14,880,000 tons (6 percent); France, 10,840,000 tons (5 percent). Total production of the "Free World" in 1951 was estimated at 185,920,000 tons (80 percent) and that of the Communist world at 44,590,000 tons (20 percent).

Prices of Metals and Metal Products

The wholesale-price index of metals and metal products increased nearly 1 percent during July. However, the July figure was nearly 1 percent below the year's high reached in March 1952 and was slightly below that during July 1951. Although the August index is not available as yet, the increases in prices of steel and steel products authorized by the Office of Price Stabilization on August 19 presumably will result in an increase.

On several occasions in the past, decreased demand for capital equipment and durable consumers' goods (the principal finished-steel products) has been preceded or accompanied by decreases in the prices of metals and metal products. Extensive curtailments of steel production accompanied or followed soon after the declines in the prices of metals and metal products that occurred in 1900, 1907, 1913, 1919, 1923, 1929, 1934, and 1949.

Moreover, we have concluded that fluctuations in steel-scrap prices apparently have been of even greater significance than changes in the price index for metals and metal products. Not only major curtailments of production but also minor recessions in steel activity have either been preceded or accompanied by declining prices of steel scrap. Consequently, we have added prices of steel scrap to the accompanying chart.

The recent short-lived but substantial curtailment of steel production and the accompanying decline in steel-scrap prices support our hypothesis. During the second half of June and the first half of July scrap prices decreased 8 percent below the ceiling price. Moreover, with the settlement of the steel strike scrap prices soon returned to their ceiling level. According to *The Iron Age*, "Much credit for recovery of scrap prices is going to iron ore shortages. But the real stimulus is the strike loss * * *. This will force mill operating rates to get high and stay high well into 1953."

Conclusions

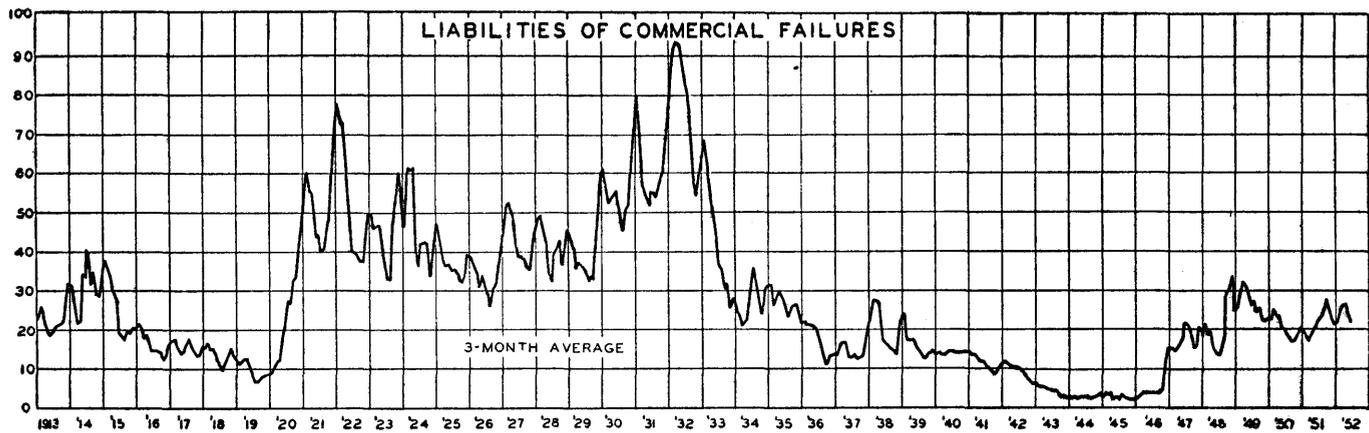
Apparently the steel situation was easing somewhat prior to the strike. However, as a result of the substantial curtailment of steel production during June and July, steel and steel products once again are in relatively short supply. Consequently, we expect high rates of operations to prevail for the next few months at least. As in the past, we expect one of the first indications of a curtailment of activity to be a decrease in the price of steel scrap.

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 July 15 to an all-time high. The July index was nearly 4 percent above that of a year ago and 13 percent above the level that prevailed in the month prior to the beginning of the Korean War.

The July increase was attributable primarily to the



1.5 percent increase in food prices. Prices of fuel, electricity, and refrigeration increased 1 percent, and prices of other components increased slightly. Apparel prices decreased slightly.

At least two factors will tend to prevent a decrease in the consumers' price index during the remainder of 1952. First, more inflation is expected; and second, food prices, which are heavily weighted in the index, may increase further. However, we do not expect price increases to continue beyond 1952. Presumably the first-quarter deflation will cause a decrease in prices comparable to that during the first quarter of 1952.

Commodities at Wholesale

	1951		1952	
(August 1939=100)	Aug. 28	Aug. 21	Aug. 27	
Spot-Market Prices (28 basic raw materials)	324	293	294	
Commodity Futures Prices (Dow-Jones Daily Index)	380	368	367	

DEMAND

Department-Store Sales

Department-store sales for the week ended August 23, 1952, were 5 percent more than sales in the preceding week and were 3 percent more than sales in the corresponding week last year.

BUSINESS

The Trend of Commercial Failures

The liabilities involved in commercial failures during July totaled \$22,789,000, compared with \$21,222,000 during the preceding month and \$21,088,000 during July a year ago.

(Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosure, voluntary withdrawal from business with known losses to creditors, enterprises involved in court action such as receivership and, since June 1934, reorganization or arrangements that may or may not lead to discontinuance, as well as businesses making voluntary compromises with creditors out of court.)

The number of failures in July was 580, compared with 671 in June and 665 in the corresponding month a year ago. During the first 7 months of 1952, liabilities totaled \$169,600,000, compared with \$139,900,000

during the corresponding period of 1951, an increase of nearly 21 percent. However, the number of failures during the first 7 months of 1952 decreased to 4,674 from 4,918 during the first 7 months of 1951. Consequently, the average amount of liabilities involved per failure during the period from January through July increased from \$28,400 in 1951 to \$36,300 in 1952.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of commercial-failure liabilities. The June average decreased 9 percent in spite of the 7-percent increase of liabilities during July, because the July figure replaced a much larger April figure. The June average was less than 3 percent above the low reached in December 1951 but was 28 percent above the earlier low reached in March 1951.

During the first 3 weeks of August the number of failures was 416, compared with 390 during the first 3 weeks of July and 478 during the corresponding period of August 1951.

The recent trend of liabilities of commercial failures is difficult to ascertain. Although the most recent figure is substantially above that of March 1951, no continuous upward trend has occurred. On the contrary, there is some reason to believe that there may have been a general downward trend since September 1951. Still a third possibility is that the series has leveled off from March 1951 through September 1951. Only as final data become available during the next few months shall we be able to reach a more definite conclusion regarding the present trend of the series. The recovery of business activity following the steel strike and inflation during the remainder of the year presumably will tend to prolong the lives of many businesses. Consequently, we do not expect a substantial increase of failures during the next several months.

COMMERCIAL FAILURES, NUMBER AND LIABILITIES
Liabilities of Failures
(000 omitted)

	Number of Failures			Liabilities of Failures		
	1950	1951	1952	1950	1951	1952
January	864	775	671	\$26,436	\$21,685	\$26,208
February	811	599	619	22,156	16,009	19,474
March	884	732	715	27,900	17,652	29,232
April	806	693	780	21,250	17,064	29,500
May	874	755	638	22,672	23,504	21,193
June	725	699	671	18,072	22,733	21,222
July	694	665	580	19,538	21,088	22,789
August	787	678		18,448	26,417	
September	648	620		15,254	26,643	
October	707	644		16,649	30,417	
November	683	587		18,864	17,567	
December	679	612		21,044	19,403	
	9,162	8,059		\$248,283	\$240,779	