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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The State of the Union

The President proposes, but Congress disposes. Therefore, Mr. Eisenhower's State of the Union Message provides no more than an indication of the Administration's present viewpoints in some respects.

Moreover, words can conceal as well as reveal underlying intent. Even when the utmost candor is attempted. statements made at one time may be misleading if taken as a forecast of actions that will follow. For example, in 1933 during the first weeks of his incumbency, Mr. Roosevelt apparently took great and sincere pride in carrying out his campaign promise to reduce Government expenditures by at least 25 percent. A few weeks after taking office, he had proposed reductions totaling 31 percent of the appropriations for fiscal 1934. Yet those proposals, however well intended, if taken as a forecast of things to come would have been seriously misleading.

We hope, therefore, that readers will understand our position. That we do not indulge in extensive praise of those passages in the message that seem to us most praiseworthy reflects two facts: first, we are attempting to analyze the message primarily as economic scientists. not as partisans, not even as admitted proponents of the ideals for which the message seems to stand; and, second, believing that subsequent actions will be far more significant than any words, we prefer, for the most part, to judge by the actions that are to come.

Foreign Policy

The announcement that the Seventh Fleet no longer will be employed to shield Communist China from its enemies on Formosa seems singularly sensible. Perhaps it reflects a partial answer to what we have called "The Great Unanswered Question."[1]

Mr. Eisenhower said, "We shall never acquiesce in the enslavement of any people in order to purchase fancied gain for ourselves." That earlier chief executives did just that in yielding to Russia's demands regarding Poland, Czechoslovakia, Manchuria, and the Kuriles has long been apparent. More than one of the eminent Americans who participated in the conferences where Russia's price for cooperation against Japan was paid have clearly indicated that we deliberately bartered the freedom of others in return for that fancied gain. If, as a nation, we have now learned the ages-old lesson that he who yields to blackmail loses in the long run all that he hoped to gain, so much the better. The fact that the lesson was both costly and humiliating may help us to remember it in future years.

The disavowal of secret executive agreements that have not been recognized by Congress seems to be a wise step if constitutional government is to be preserved here. To disregard the explicit specifications of the Constitution in this respect has proved to have been as unwise as it was unauthorized.

Foreign Trade

Without revealing whether or not he accepts as sound economic doctrine some of the old protective-tariff fallacies, Mr. Eisenhower urged removal of procedural obstacles to trade and extension of the Reciprocal Trade Agreements. Although many stalwart Republicans have abandoned the protective-tariff notions long sponsored by their party, an important segment apparently remains convinced that trade between, for example, France and this country is somehow fundamentally different in its economic effects from trade between Massachusetts and North Carolina.

That both Massachusetts and North Carolina benefit substantially and nearly equally by the freedom of trade between them (in spite of the fact that some cotton mills have moved from the former to the latter) seems obvious to many citizens who find something sinister about free trade between France and the United States. It is not quite clear whether Mr. Eisenhower's reservations in this connection reflect his own views or merely a desire to avoid antagonizing the Republican stalwarts who long were principal beneficiaries of the Nation's tariffs.

In any event, we know of no competent and unbiased economists who do not favor free trade both in theory and in practice. Of course, a few economists employed by tariff beneficiaries have different views, and some other economists seem not to realize certain broader implications of free-trade principles. Nevertheless, in the whole field that includes man's economic behavior, we know of no other aspect on which the overwhelming majority of qualified students are in such complete agreement. We believe that the application of well-established scientific knowledge is sure to be helpful in the long run.

Fiscal Policies

Under this heading, a few brief quotations from Mr.

[1] "The Great Unanswered Question," Special Bulletin, April 18, 1951. Subscribers who desire a copy may obtain one on request.

Eisenhower's message require no supplementary comment.

"A balanced budget is an essential first measure in checking further depreciation in the buying power of the dollar. This is one of the critical steps to be taken to bring an end to planned inflation."

"The Department of the Treasury will undertake—indeed has undertaken—at suitable times a program of extending part of the debt over longer periods and gradually placing greater amounts in the hands of longer term investors."

"Reduction of taxes will be justified only as we show we can succeed in bringing the budget under control. As the budget is balanced and inflation checked, the tax burden that today stifles initiative can and must be eased."

Price and Wage Controls

Mr. Eisenhower genuinely seems to have confidence in free markets and free men.

"The great economic strength of our democracy has developed in an atmosphere of freedom."

Moreover, he asserts, as we have many times in these bulletins, "Direct controls, except those on credit, deal not with the real causes of inflation but only with its symptoms."

And he concludes that " * * * we should combat wide fluctuations in our price structure by relying largely on the effective use of fiscal and monetary policy, and upon the natural working of economic law. * * * I am convinced that now—as well as in the long run—free and competitive prices will best serve the interests of all the people, and best meet the changing, growing needs of our economy."

Evidently price and wage controls are dead. Only if Senator Capehart is successful in persuading Congress that stand-by controls are needed will even the shadow of that shadow-boxing be left upon the scene.

Agricultural Policies

Mr. Eisenhower urges that "our aim should be economic stability and full parity of income for American farmers." However, he also urges that " * * * we must seek this goal in ways that minimize governmental interference in the farmers' affairs, that permit desirable shifts in production, and that encourage farmers themselves to use initiative in meeting changing economic conditions."

Just what these phrases mean is not completely clear. However, the proposed immediate action, a special Agricultural Advisory Commission, seems eminently sound.[2]

Other Policies

Reference to labor, social security, natural resources, health, and school needs also appear in the message. Especially interesting is the comment regarding the " * * * solvency of the whole security system * * * :" However, we believe that more fruitful discussion must await specific proposals.

Conclusions

To us, the message seems to reflect awareness of the problems and an earnest desire to cope with them. The magnitude of the problems perhaps can be dimly realized by comparison with those of two decades earlier.

*On March 10, 1933, in a message to Congress, Mr. Roosevelt said, "For three long years the Federal Government has been on the road toward bankruptcy. * * **

"Our Government's house is not in order, and for many reasons no effective action has been taken to restore it to order.

"Upon the unimpaired credit of the United States Government rests the safety of deposits, the security of insurance policies, the activity of industrial enterprises, the value of our agricultural products and the availability of employment.

*"The credit of the United States Government definitely affects these fundamental human values. It, therefore, becomes our first concern to make secure the foundation. * * **

"Too often in recent history liberal governments have been wrecked on the rocks of loose fiscal policy. We must avoid this danger."[3]

Today, two decades later, the Nation is farther along that road to bankruptcy by some $250,000,000,000 *direct debt (more than 10 times the debt of 1933) plus many more billions of obligations for orders placed, loans guaranteed, and accounts insured.*

Seriousness and a comprehension of the magnitude of his problem well befit a receiver in bankruptcy. That President Eisenhower has not been formally given the title of trustee or receiver does not alter the nature of the problem with which he must cope. Only the great underlying economic strength of our economy plus the pleasing delusions that always accompany an inflation-based boom in business will make the task to be done appear, to superficial observers, less formidable than that which confronted Mr. Roosevelt in 1933.

DEMAND

Purchasing Media

The total purchasing media available decreased about $1,500,000,000 during January from the all-time record, $113,438,000,000, reached at the end of 1952. (Additional data were received too late to revise the accompanying chart.) During each of the last 6 years the purchasing-media total has decreased during January, and the average decrease has been $1,200,000,000.

Purchasing media derived from the first source, monetary gold, decreased for the second consecutive month during January. The decrease, which was $146,000,000, brought the reduction since November 1952 to $305,000,000. The total value of the Nation's gold stock (including gold in the general fund) was $23,036,087,257.94 as of January 27, 1953. In view of some doubt on the part of the public as to whether this amount of gold still is in the Treasury's vaults at Fort Knox and other depositories, the new Secretary of the Treasury has ordered his department to ascertain whether the gold actually is on hand. According to the preliminary plan, only a spot check will be made.

Commercial, industrial, and agricultural loans, the second source of purchasing media, decreased $500,000,000 during January from the all-time high of $32,480,000,000 reached during December. The decrease was slightly more than seasonal. Commercial loans usually reach a peak in December and decrease approximately 9 percent in the succeeding 7 months. Ordinarily there is little change during February and March, but 3-percent and 4-percent decreases are to be expected during April and May.

Purchasing media derived from the third and fourth

[2]In this connection, readers may wish to refer to "Democracy's Device for Analyzing Major Problems," *Research Reports*, October 9, 1950.

[3]Message to Congress, March 10, 1933.

sources, both of which are inflationary, decreased about $800,000,000 during January, in contrast to an increase of $1,200,000,000 during December. The amount of inflationary purchasing media at the end of January was about $200,000,000 less than that at the end of January last year.

Loans on real estate increased $70,000,000 during January; loans on securities decreased $540,000,000; other loans, which include consumer installment credit, increased $40,000,000, the smallest gain since August 1952; the commercial banks disposed of $950,000,000 of Government securities (apparently in large part from holdings of tax-anticipation bills); and the Federal Reserve banks decreased their holdings by $865,000,000 (during December the Federal Reserve banks had purchased $1,100,000,000 worth of Government securities in order to relieve the seasonal pressure on the commercial banks).

The Treasury's net cash deficit during January was $375,000,000. The relatively low January deficit is attributable to a decrease in defense expenditures from $4,000,000,000 in December to $3,400,000,000 in January.

Mr. Humphrey has announced that the Treasury will offer in exchange for $8,868,000,000, 1⅞-percent maturing certificates of indebtedness two kinds of securities: 2¼-percent, 1-year certificates of indebtedness and 2½-percent, 5-year-and-10-months bonds. The holders of maturing certificates will have the option of taking either security or cash.

The new offering marks the beginning of the new Treasury program, announced in the President's State of the Union message, of " * * * extending part of the debt over longer periods and gradually placing greater amounts in the hands of longer-term investors." This procedure is in line with our earlier expectation that the new Administration would attempt to deflate gradually over a period of several years.[4]

Irregular and substantial fluctuations in defense expenditures as well as other uncertainties still preclude accurate estimates of the amount of purchasing media that will be withdrawn during the first quarter. However, the facts and data available suggest that a decrease of the order of magnitude of last year's (about $4,000,000,000) is probable by the end of March. Afterward some increase in the total may occur; but, in view of the expressed determination of the new Administration to curtail unnecessary Government expenditures, further monetization of Government debt seems improbable in the near future. For the first time since 1949, there now seems to be reasonable assurance that total purchasing media will decrease rather than increase in the year as a whole.

[4]See "The Probable Choice of Roads Ahead," *Special Bulletin*, January 5, 1953.

Department-Store Sales

Department-store sales for the week ended January 31, 1953, were 1 percent more than sales in the preceding week and were 2 percent more than sales in the corresponding week last year.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 95.6 percent of capacity for the week ended February 7, 1953, was 4 percent less than that in the preceding week but was 2 percent more than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	86	27	80	31	101	96p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.19	.41	1.21	.47	2.10	2.15

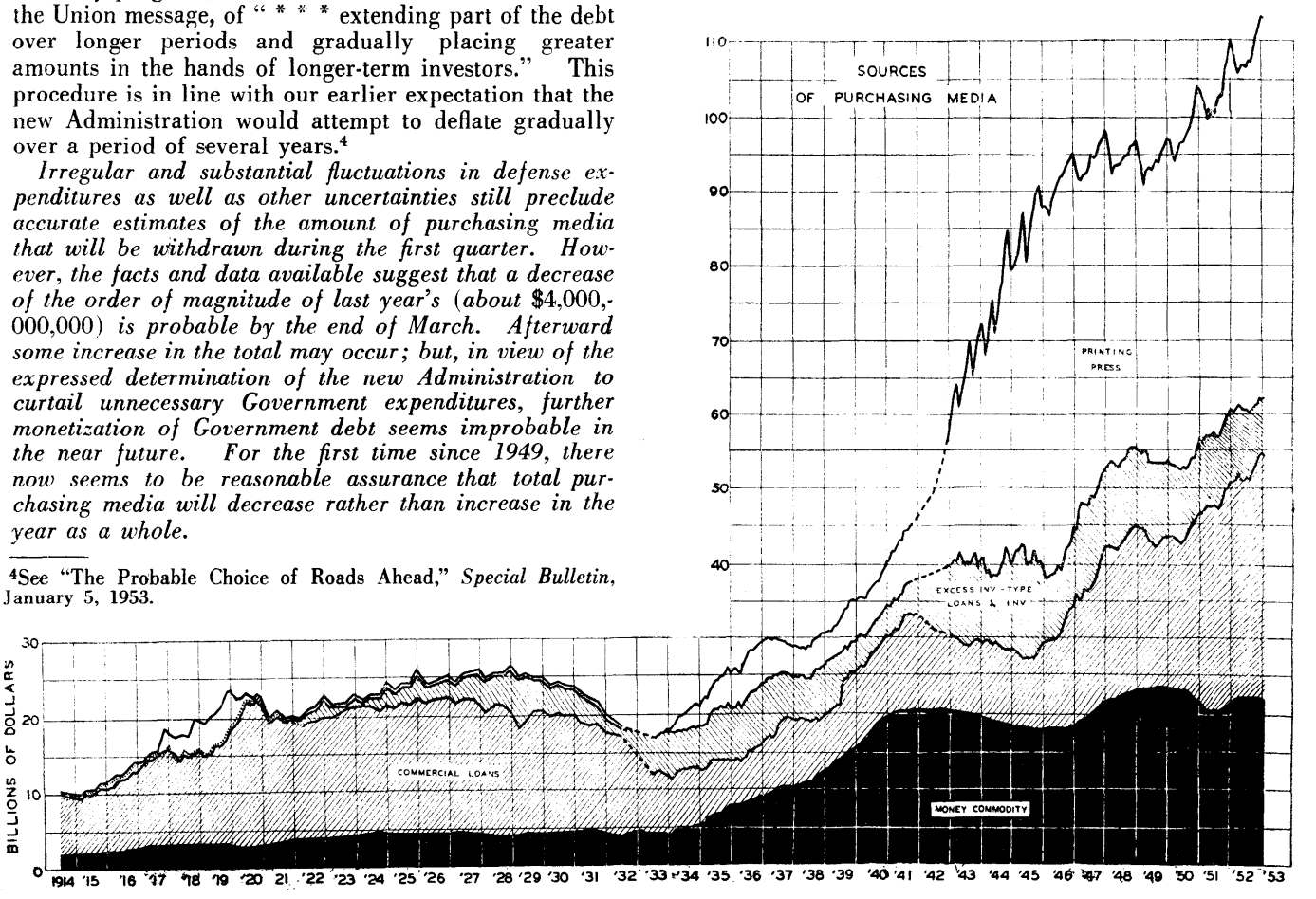
Automobile and truck production in the United States and Canada during the week ended January 31, 1953, was estimated at 150,751 vehicles, compared with a revised total of 149,621 vehicles during the previous week.

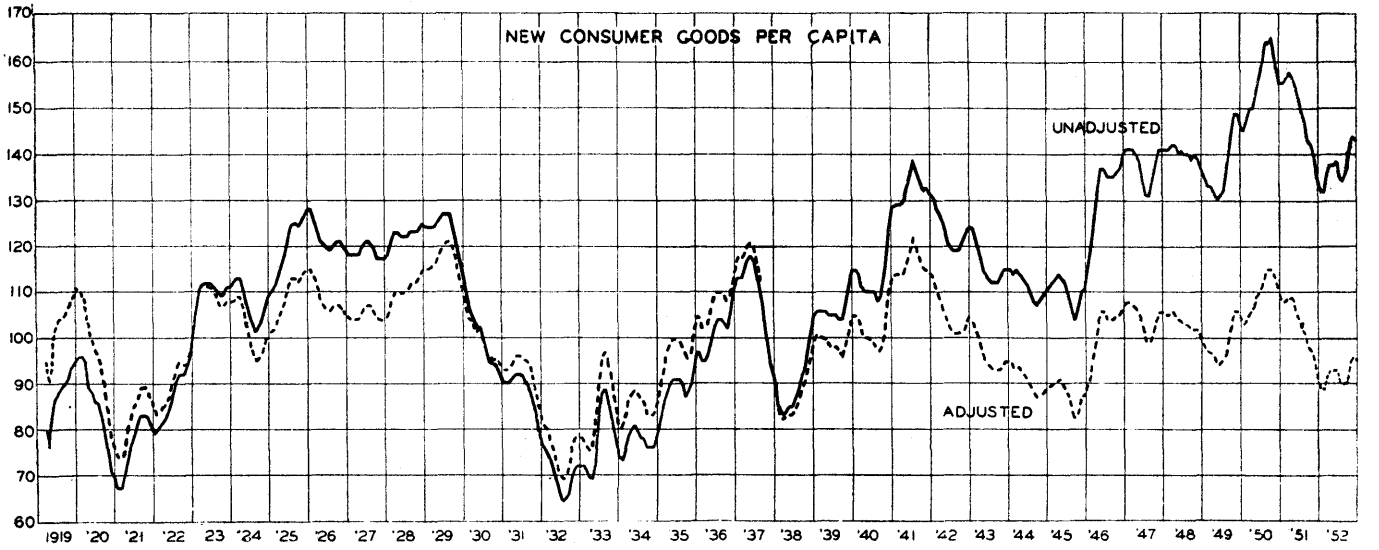
	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	109	29	74	60	102	151p

Electric-power production in the week ended January 31, 1953 increased to 8,150,534,000 kilowatt-hours from 8,144,074,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.73	1.59	2.24	2.14	7.57	8.15

Lumber production in the week ended January 24, 1953, decreased. *The New York Times* seasonally ad-





justed index was 5 points below that for the preceding week but was 21 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	144	39	87	79	117	138

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

New Consumer Goods Per Capita

Our index of new consumer goods produced per capita (a 3-month moving average), unadjusted for long-term trend, decreased 1 percent during December. The December index was 8 percent above the 1952 low reached in January and February but was 14 percent below the all-time high reached in October 1950.

The index adjusted for long-term trend decreased 2 percent during December to a level 3 percent above that of a year ago. The index was 18 percent below the all-time high reached in August, September, and October, 1950, and was within 6 percent of the long-term-trend line.

Production of consumer goods, which decreased during October and November, decreased nearly 1 percent during December. The 3- and 2-percent increases in automobile and furniture production were more than counterbalanced by the 5-percent decrease in textile production. Residential-contract awards and output of manufactured foods were unchanged during December.

Automobile production increased from 420,400 cars and 114,600 trucks produced during December 1952 to 465,700 cars and 111,600 trucks during January 1953. It seems probable that, if demand for new cars is great enough, the automobile industry will be able to produce as many at 1,500,000 passenger cars during the first quarter of 1953.

The Federal Reserve Board's index of contracts awarded for residential construction did not change during December. (In our computations of new consumer goods we adjust the Board's index for changes in construction cost in order to obtain an index representing physical volume.) The adjusted December index was 15 percent more than that for the corresponding month of 1951 but was 29 percent below the postwar high reached in July 1950. The number of new dwelling units started during 1952 was 1,127,000, 3 percent more than the 1951 total but 26 percent less than the record, 1,400,000, in 1950. The number of new dwelling units started during 1953 probably will be less than the 1952 total.

The December level of furniture production was 18 percent above that during July, when the 1952 low was reached. Substantial new orders at the annual furniture markets in Chicago and New York indicate that demand for furniture is strong for the time being.

Textile production, which decreased 27 percent from October 1950 through April 1952, increased 22 percent during the 7 months ended in November 1952. However, the November level was 11 percent below the October 1950 high. Moreover, production decreased during December.

Because the October production figure probably will be replaced by a somewhat lower January figure in calculating the 3-month moving average, the January index of new consumer goods produced per capita probably will decrease somewhat. Inasmuch as most basic raw materials are available in ample quantities, the output of consumer goods later during the year presumably will depend primarily on consumer demand. During the second half of 1952, consumer demand was stimulated substantially by the expansion of consumer installment credit and by the high level of personal incomes resulting in part from expanding defense production. However, military expenditures apparently are approaching or have passed their peak, and tighter money may restrain the expansion of installment credit. Although the spring upturn in automobile production presumably will be reflected in an upward trend of the index, present indications are that the turn for the better will be of brief duration.

PRICES

Commodities at Wholesale

	1952	*1953*	
(August 1939=100)	*Feb. 5*	*Jan. 29*	*Feb. 4*
Spot-Market Prices (22 basic raw materials)	319	271	269
Commodity Futures Prices (Dow-Jones Daily Index)	393	349	348

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