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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

*Who Won What?*¹

With their allies, the American forces in Korea have won at least a respite, the duration of which remains to be determined. For them the next battle has been indefinitely postponed: for their families the daily dread of a telegram from Washington can be put aside; and for the millions of other citizens who have been deeply ashamed that their fellows have been forced to fight with less than the full support that the Nation could have given had it dared to do so, a respite also has been won from the renewed shame each casualty list brought. All this is clear gain that cannot be denied or lost, for the time being.

But who else has won what? Only a tentative answer can be given at this stage of the proceedings. Nevertheless, such a tentative and partial answer must be sought if we attempt to judge the consequences of perhaps the strangest war in American history.

Never before have the American people officially pretended that a war was not a war; never before have American armies been ordered not to seek victory in the field; never before have the attacking forces of another nation been provided a sanctuary by our own orders where they have been safe from the pursuit of our forces.² We

¹Two types of articles in the *Research Reports* appear over the names of the principal author or authors. One type involves problems to which economic scientists *can* apply their methods but the available data support differing hypotheses to such an extent that all members of our editorial staff are not satisfied that the conclusions of the article are scientifically grounded. The other type of signed article involves some problems for which the methods of economic scientists are inadequate and the author or authors have applied their judgment derived from experience in other fields. The fact that the second type of article is signed does not necessarily imply disagreement among our editorial staff regarding the conclusions presented. We follow these procedures so that readers may readily differentiate between the material that we consider adequately grounded from the viewpoint of economic scientists and other material that either has not yet been so grounded or is of such nature that it presumably cannot be thus grounded in scientific tests and evidence.

²If General MacArthur was correct in his recent letter to Senator Byrd, the then (late 1950) highest political level in our Nation went even beyond the provision of a sanctuary. By countermanding General MacArthur's order to destroy the Yalu River bridges when the Chinese attacked in the fall of 1950, the United States not only provided a sanctuary but assured them of free and safe access thereto. This was done at a time when use of those bridges facilitated the defeat of the greatly outnumbered elements of the American Eighth Army and threatened their destruction. In fact, some military men questioned whether the Chinese would have dared thus separate their armies from their bases of supply if they had not received assurance that the bridges would be preserved even prior to the Chinese attack.

doubt if in all of recorded history there can be found a war conducted as we have conducted the Korean "police action." Such a unique experiment should at least have instructive results.

What Korea Won

In spite of President Rhee's disappointment with the terms of the truce, the South Koreans have won freedom from Communist domination, for the time being. Whether Korea will be united or not is yet to be determined.

In view of the devastation of much of South Korea and the terrific cost in Korean blood, one can understand the South Koreans' apparent belief that they already have paid most of the price for a unified Korea. Moreover, in view of what happened to Poland, Czechoslovakia, and the Chinese Nationalists under Chiang Kai-shek, we should be able to understand Rhee's distrust of the future negotiations even though most Americans probably hope that we shall not once again merit such distrust.

What the Communists Won, or Lost?

There seems to be a widespread belief that, from the Asiatic point of view, the Communists won a victory by battling the mighty United States to a standstill and apparently forcing us to seek an armistice. In the Orient, "face" often has been decisive; consequently, there is reason to fear that the Communists have won prestige and perhaps easy future conquests. If, on the other hand, the defeat of the Communist attempt to overrun South Korea has most impressed the other peoples of Asia, the Communists have lost rather than gained "face" in the Orient. Future developments presumably will provide the answer.

As far as the Communists in Russia are concerned, they too have won a respite. They suffered little drain on their manpower, but supplying the large quantities of armament and munitions to the Chinese forces must have been an unwelcome drain on Russia's war potential. If the destruction of enemy tanks, trucks, artillery pieces, and planes was even a substantial fraction of that claimed by our forces, the flow of replacements must have required a significant portion of Russia's output.

But perhaps the greatest gain for the Communists has been the seeming proof that a spirit that once animated Americans is now dead, or at least was forgotten at the highest political levels. There was a time when Americans adopted the slogan "Don't tread on me" and meant it; in 1797, an American ambassador to the French Republic said, "Millions for defense, but not one cent for tribute," and the American Government once refused to accede to blackmail by summarily ending the menace of the Barbary pirates through force of arms.

But those were the days when our Nation, then a small fringe of population on the eastern seaboard, won its independence from one mighty empire and by its pride and valor won the respect of the great empires of France and Spain. Harassed by savages in the wilderness to the west of them and with their cities vulnerable to attack from the sea by any of the great navies of those empires, the citizens of the United States made up in pride and valor for their lack of numbers and means of producing armament. True, the Capitol in Washington was burned as every city on the Atlantic seaboard might have been destroyed if the potential enemies of our Nation had chosen to send their powerful navies against them. Nevertheless, our forefathers somehow found the courage and the means to stand against all that threatened them.

Now that the United States as an industrial power overshadows all the rest of the world combined; now that productive capacity, more than ever before, must influence the outcome of war; now that we have a commanding lead in developing the greatest destructive weapon of all time; and now that the unarmed citizens of Eastern Germany have demonstrated how weak a support to Russian arms even a conquered Europe might be, we seem to have lost, at least at the highest political levels, the pride and valor we once had. We relieved from command the generals who were trained to believe that "there is no substitute for victory" and prolonged a war we refused to try to win while we negotiated for a respite in order to negotiate some more.

Thus the Communists have established, presumably to their satisfaction, that the United States no longer need be feared as the Barbary pirates came to fear its diminutive youthful self 150 years ago. The Communists may well believe that they have proved to the whole world that our Nation no longer adheres to principles or policies not subject to negotiation; for surely they have concluded that a Nation unwilling to support its own sons on the battlefields of Korea to the limits of its capacity and with all means at its disposal has long since abandoned all lesser principles and policies, however much lip-service may still be given them.

And an important point, from the Communist point of view, may well be that a rich nation willing to compromise on virtually any principle is an ideal victim of international blackmail. Of course, we had already been tested to some extent in that respect at Teheran and Yalta; but the demonstration that America's fighting men could be attacked without arousing the American will to victory, at least among the top political leadership, must have been a source of great gratification to the international blackmail ring that has its headquarters in the Kremlin.

What the United States Won, or Lost?

Some observers who have tried to count the gains of the Korean episode have urged that at long last the principle of collective security has been established. However, we question that "collective security" is an adequately descriptive phrase. It seems to gloss over the fact that for the popular slogan "trade not aid" some of the nations involved chose to act on the principle of "trade and token aid." For example, it seems to be well established that the British trade with Communist China bulked large in spite of the small British contribution of fighting force to the Korean battleline. Whether the trade subtracted more from "collective security" than was added by the small fighting force seems to be a moot question.

Other observers argue that an aggressor has been shown that aggression doesn't pay. We hope that does emerge as one of the lessons of the Korean episode, but until the terms of the final settlement are known, any judgment on this aspect of the problem will be premature.

The fact is that no one knows yet what has been won or lost, finally. Over the negotiations during the next several months will hang the blackmailer's threat of more American blood spilled in Korea by an enemy whose own losses in men are hardly deemed worthy of serious concern.

Fortunately, Russia has other troubles, both of internal succession and of external insurrection. There is reason to hope that these weakening influences may prevent the Communists from playing the game of international blackmail as ruthlessly as they might have a few months ago. Even the weakening of our enemies cannot be expected to give us an assured peace, but it may lessen the price we shall pay for the end of a "hot" war.

E. C. Harwood

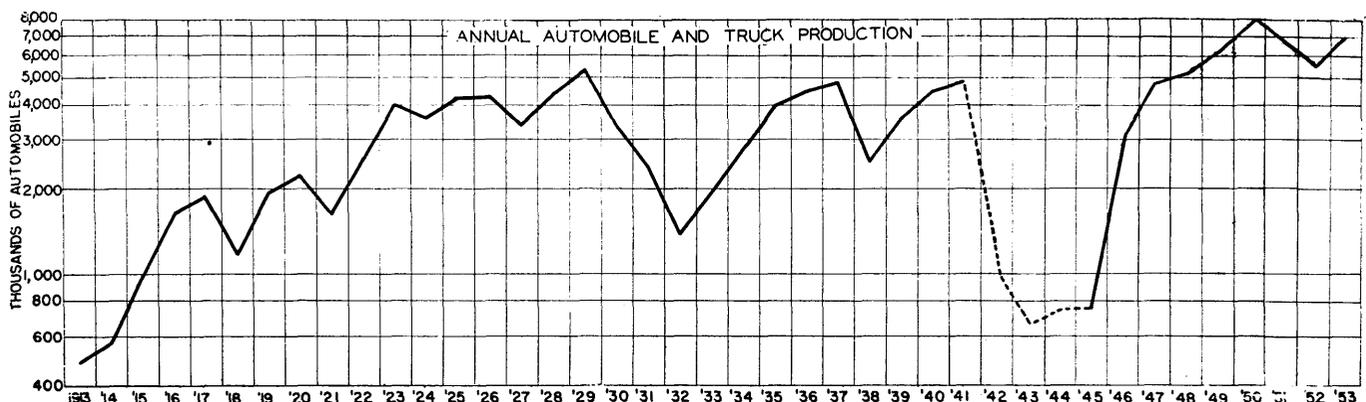
SUPPLY

Industrial Production

Steel-ingot production, scheduled at 96.7 percent of capacity for the week ended August 1, 1953, was 2 percent more than that in the preceding week and was substantially more than production in the corresponding week last year, when the industry was recovering from a major steel strike.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	96	17	84	37	43	97p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.32	.26	1.27	.57	.90	2.18

Automobile and truck production in the United States and Canada during the week ended July 25, 1953, was estimated at 175,596 vehicles, compared with a revised total of 175,555 vehicles during the previous week.



	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	123	46	88	32	42	176p

Electric-power production in the week ended July 25, 1953, increased to 8,460,427,000 kilowatt-hours from 8,209,203,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.72	1.43	2.32	2.15	7.33	8.46

Lumber production in the week ended July 18, 1953, decreased. *The New York Times* seasonally adjusted index was 19 points below that for the preceding week and was 4 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	135	40	103	86	101	97

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

Automobile Production

According to our preliminary estimates, about 723,000 motor cars (615,000 cars and 108,000 trucks) were produced in the United States during July, compared with a revised estimate for June of 662,000 cars and trucks and with 518,700 cars and trucks during the corresponding month a year ago. July production approximated that of April, when the 1953 high was reached.

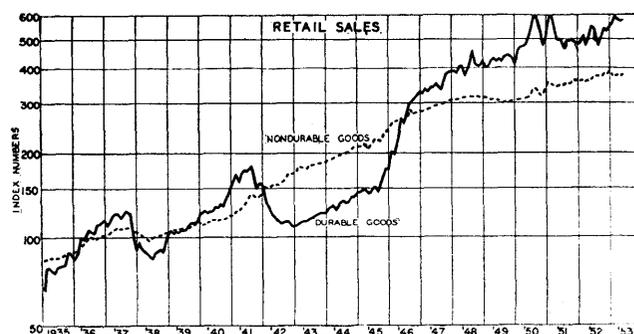
For the first half of the year *Ward's* reports a production record of 3,255,600 cars, about 146,000 more than those produced in the previous first-half-year peak period during 1951. However, truck output of 633,880 units was less than that during the corresponding period of 1951. Consequently, combined output was 3,889,489 vehicles, compared with the record production of 3,894,577 during the first 6 months of 1951.

Estimates for all of this year vary greatly. According to *The Journal of Commerce*, most auto-industry executives continue to say that 1953 should be the second biggest year in car-making history. If so, production would be somewhat more than the 5,338,435 cars and 1,426,152 trucks assembled in 1951 but somewhat less than the peak production of 6,665,863 cars and 1,337,182 trucks in 1950. The figure plotted on the accompanying chart for 1953 is 7,000,000.

Other estimates are less optimistic, but nevertheless historically high. *The New York Times* expects that the "industry again will be operating at its 'traditional' pace, with 60 percent of its annual output concentrated in the first six months of the year and the remaining 40 percent stretched out over the last six months." Such a schedule would result in nearly 6,500,000 cars and trucks, about 5 percent fewer than those produced during 1951.

Credit helped to finance a larger proportion of automobile purchases last year than in any other postwar year, according to the *Federal Reserve Bulletin*. Fifty-seven percent of persons buying new cars in 1952 borrowed part of the purchase price, compared with 47 percent in 1951 and 46 percent in 1950. On used-car purchases the percentages were 65 in 1952, 60 in 1951, and only 57 in 1950. Automobile credit, as reported by the Federal Reserve Board, reached \$9,400,000,000 at the end of May, nearly 44 percent more than that a year earlier.

According to *The Iron Age*, "the real story behind the new daily (production) records" is the "no-holds-barred fight between Ford and General Motors to hold or increase their percentages of the total market." Available data indicate that General Motors has been especially successful thus far and has increased its share of the total market from 42.9 percent during the first 6 months of 1952 to 47.3 percent during the first half of this year.



Apparently demand for cars is diminishing; reports indicate that many new as well as used cars are harder to sell. Discounts and other benefits to the buyer have become necessary to move some models. Dealer stocks of vehicles have been increasing. *The New York Times* recently reported that "some worried manufacturers have urged *Ward's Automotive Reports* and the Department of Commerce not to publish their periodic tabulations." According to the *Times*, the consensus of opinion at a recent meeting of the National Automobile Dealers' Association "was that abnormal inventories of new and used cars would be worked off and normal conditions attained in six months." However, *Business Conditions*, published by the Federal Reserve Bank of Chicago, reports: "Only the most brazen optimists expect that the market can absorb more than six million [cars] in domestic and foreign sales and larger dealer holdings."

Conclusions

Some curtailment of car production is probable in the next several months. However, the present competition among major producers for an increased share of the market temporarily may limit the downturn to some extent.

DEMAND

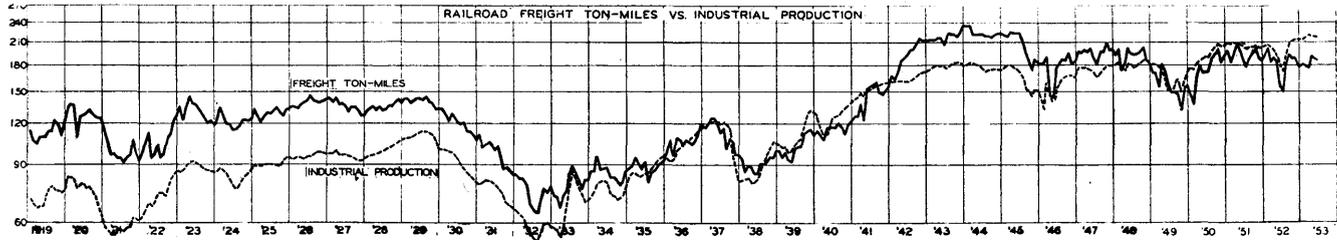
Retail Sales

The seasonally adjusted index of durable-goods sales increased slightly during May to within 3 percent of the 1953 high reached in February. The May index was only 3 percent below the alltime high reached in January 1951 (when the second scare-buying wave occurred) but was 4 percent more than that for May 1952.

Retail sales of durable goods during the first 5 months of 1953 were 12 percent more than the average during 1952 and were greater than those during any other 5-month period in the past. A substantial increase in sales of automobiles and accessories, which account for about 50 percent of total durable-goods sales, was primarily responsible for the record level of sales during the first 5 months of 1953. Two other major components of the series, sales of lumber and building material and sales of furniture and appliances, averaged 3 percent higher during the first 5 months of 1953 than their average levels in 1952.

The seasonally adjusted index of nondurable-goods sales increased nearly 2 percent during May to a 1953 high. However, the May index was nearly 3 percent below the alltime high reached during December 1952.

The level of nondurable-goods sales during the first 5 months of 1953 was nearly 2 percent higher than that during last year but 1 percent below the level during the last 5 months of 1952. The average levels of various components of the nondurable-goods sales series during the first 5 months of 1953 compared to their average



levels during 1952 were as follows: eating and drinking places, up 3 percent; food, up 2 percent; department-store sales, up 1 percent; and apparel, up 1 percent.

As far as the outlook for the next several months is concerned, a continuation of the upward trend of durable-goods sales does not seem probable. Although surveys conducted earlier in the year (for example, the Federal Reserve's 1953 Survey of Consumer Finances, *Research Reports*, July 13, 1953) suggested that consumers expect to spend more for durable goods during 1953 than they spent during 1952, the truce in Korea and the increased expectations on the part of some consumers of a decline in general business activity may alter these earlier plans. Consumer credit, which stimulated retail sales substantially during late 1952 and early 1953, may expand less rapidly. Increased indebtedness of consumers, especially those in the lower levels of income, may force many of them to spend a substantial portion of their income for repayments, thus tending to limit their new purchases during the coming months.

An increase in retail sales comparable to that during late 1952 and early 1953 does not seem probable during the remainder of the year. A leveling-off or a slight decrease in retail sales seems more probable.

Department-Store Sales

Department-store sales for the week ended July 25, 1953, were 1 percent less than sales in the preceding week but were 5 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

(August 1939=100)	1952		1953	
	July 30	July 23	July 29	July 29
Spot-Market Prices (22 basic raw materials)	294	271	271	
Commodity Futures Prices (Dow-Jones Daily Index)	369	334	334	

BUSINESS

Freight Ton-Miles vs. Production

The seasonally adjusted index of railroad freight ton-miles, which decreased 1 per cent during March, increased nearly 8 percent in April to the highest level since September 1952. Our preliminary estimates for May and June indicate decreases of nearly 2 and 1 percent, respectively. The June index was 10 percent below the post-war peak reached in April 1951 and was about 8 percent below the 1952 high reached in February. Partial data for July suggest that a further decrease may have occurred in that month.

The Institute's seasonally adjusted index of railroad freight ton-miles reflects the total tonnage of freight handled, multiplied by the distance it is carried. The index is compiled from the record of all freight carried by Class I railroads as reported by the Interstate Commerce Commission. The average for 1935-39 is used as the

base, or 100 index number; and adjustment has been made for seasonal variations, which are rather marked in freight traffic. Estimates for May, June, and July are based on carloadings data.

From the third quarter of 1952 through March 1953 freight ton-miles decreased substantially. The Federal Reserve's seasonally adjusted carloadings of various types of goods decreased as follows: coal, 32 percent; livestock, 25 percent; grain, 15 percent; ore, 14 percent; coke, 9 percent; and forest products, 7 percent. Carloadings of miscellaneous goods increased 6 percent; carloadings of less-than-carlot merchandise were virtually unchanged. The partial recovery of freight ton-miles since March has been attributable to the following increases: grain, 24 percent; coal, 15 percent; livestock, 8 percent; and coke, 3 percent.

Freight-car output, which averaged 7,776 a month during the first 5 months of 1952, decreased to 7,289 cars during the corresponding period of 1953 and was substantially below the 1951 peak of 10,129 cars reached in October. New orders for freight cars have leveled off from mid-1951, but backlogs have decreased steadily during the last 2 years. *The Iron Age* recently reported, "Since reaching a crest of 113,713 orders in April 1951, commercial freight car builders' backlogs have dropped for 26 months in a row. And this month (May) plummeted past the 33,770 mark without any sign of slowing. * * * Since January cars have been delivered almost twice as fast as new orders were booked."

During the first 5 months of 1953 the daily average "surplus" of available cars was 64,127 cars, compared with 14,033 cars in the corresponding months of 1952. The daily "shortage" was 1,544 cars, compared with 2,937 cars in the corresponding period of 1952.

The accompanying chart shows the trend of railroad freight ton-miles in relation to the trend of industrial production. A comparison of these two indices is some indication of whether or not the share of total freight handled by the railroads is increasing or decreasing. The trend of industrial production was upward during both the fourth quarter of 1952 and the first quarter of 1953; the trend of freight ton-miles was generally downward during the entire period. The widening gap between the index lines of industrial production and railroad freight ton-miles during this period indicates that the railroads presumably were unable to compete as effectively as in previous periods with other carriers.³

Gains in freight carried by railroads during the second quarter of 1953 interrupted the rapid widening of the gap that had occurred in earlier months between the indices of industrial production and of railroad freight ton-miles. If the interruption proves to be temporary and the gap continues to widen at the earlier rate, we shall have significant evidence that the growth trend of the railroad industry as a whole, and of some of the roads in particular, has become relatively unfavorable.

³For greater details, see "Freight Ton-Miles vs. Production," *Research Reports*, March 23, 1953, page 47.