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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Congress Adjourns*

Ordinarily at the adjournment of a session of Congress, we present our review of its activities. In view of the change of Administration, a review seems especially appropriate this year. Although no drastic changes seem to have occurred, there have been indications of a changing attitude on some matters.

#### *Legislation Acted Upon<sup>1</sup>*

Among the legislation enacted the following was of relatively great economic significance: the excess-profits tax was extended; defense spending for fiscal 1954 was reduced \$7,000,000 from earlier estimates to \$34,400,000,000; appropriations for the Mutual Security Program were lowered \$2,800,000,000 from Mr. Truman's original request for \$7,600,000,000; Presidential authority to negotiate reciprocal trade agreements was extended; disposal of 29 Government-owned synthetic-rubber plants was authorized; coastal States were given title to submerged lands within seaward boundaries; the Reconstruction Finance Corporation was abolished as was the Small Defense Plants Administration and replaced by the Small Business Administration; funds for Federal development of hydroelectric power were limited somewhat; and direct controls on wages and prices were permitted to expire.

Among the proposed items not enacted, two were of special economic significance. Refusal to postpone the scheduled increase in employer and employee Social Security taxes will tend to reduce or eliminate deficit financing through the commercial banks and to that extent will be deflationary. Refusal to increase the debt limit will keep pressure on the Executive branch to reduce expenditures, especially because the Republican Party legislators may be even more reluctant to sponsor a raise in the debt limit in 1954 shortly before the next elections.

In general, there seems to be little disagreement with the belief that the 83d Congress is more economy minded than its recent predecessors. Decreases in appropriations were substantial; defense appropriations and mutual-security appropriations were not only substantially less than those requested earlier by Mr. Truman but were well below those asked for by Mr. Eisenhower. Moreover, apparently the fight over the excess-profits tax impressed at least some Members of Congress with the

fact that the Government's income must be maintained if further deficits are to be avoided.

An intention to reduce the role of Government in the Nation's economic activities seemed to influence several congressional actions. Removal of all price and wage controls probably was the single most important act in this respect. However, other indications of less Federal Government concern with the economy included the giving up of Federal title to offshore land; the authorized return of Government-owned rubber plants; and, according to *The New York Times*, "sharply restricted funds for Federal development of hydroelectric power, particularly transmission lines, under a program of increased participation by private enterprise."

Although the Reciprocal Trade Agreements Act was extended for a year, failure to take any further action has led many individuals to doubt that the present Congress will support the drive to free trade.

#### *Legislation Not Acted Upon*

Although hearings were held and studies were undertaken, there were several major problems affecting the economic life of the Nation that were not acted upon. Extension of Social Security coverage, revision of the Taft-Hartley Act, "overhauling" of the Nation's tax structure, and a new farm-price-support program were not active issues during the past session.

Mr. Eisenhower has been studying the Social Security program and indicated that he expected action in the next regular session to increase the coverage to 10,000,000 people not now eligible for benefits. The Ways and Means Committee, which has been holding hearings on revisions in the tax structure, is expected to present several changes to Congress at the next session. A joint Administrative-Legislative Commission has been studying the country's foreign economic policy. Extensive hearings have been held on the Taft-Hartley law, and new legislation is to be proposed at the next session. The Administration's anti-trust survey is expected to provide information that may lead to the introduction of several bills. The first comprehensive review of national policy on atomic energy was completed and, according to *The Journal of Commerce*, "More liberal legislation, permitting private industry to share in the development of atomic power, is expected to be introduced in the next regular session." Finally, hearings on farm-price supports are to be held this summer.

#### *Conclusions*

*From the economist's point of view the most hopeful aspect of the work of the 83d Congress to date is that at last there seems to be a determination to avoid the "rocks of a loose fiscal policy." If our Nation refuses*

<sup>1</sup>More detailed summaries appeared in the August 4, 1953, issues of *The New York Times* and *The Journal of Commerce*, among others.

to follow the primrose path of perpetual inflation down which France has drifted for four decades, we shall have a far better chance of solving the numerous other economic problems that confront us.

### Statistical Indicators

Recent data indicate a few changes among the leading indicators. During July the indices of industrial-common-stock prices and prices of 22 basic commodities increased slightly. Both indices remained well below earlier peaks. The inverted series of liabilities of business failures apparently decreased further in July. New orders for durable goods decreased during June and are below their February 1953 high. Residential construction decreased during June and apparently decreased further during July. If so, the recent trend should be classified as downward. New incorporations rose slightly in June but did not completely counterbalance the decrease in May from the 1953 high reached in April. Average hours worked per week decreased during June and are nearly 2 percent below the recent peak reached in December 1952.

The leading indicators continue to suggest that the probability of a downturn in general business activity in the near future is great enough to warrant caution in making long-term commitments.

### SUPPLY

#### Industrial Production

Steel-ingot production, scheduled at 97.1 percent of capacity for the week ended August 8, 1953, was 5 percent more than that in the preceding week and was 17 percent more than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	94	15	85	40	90	97p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.30	.23	1.28	.62	1.87	2.18

Automobile and truck production in the United States and Canada during the week ended August 1, 1953, was estimated at 169,690 vehicles, compared with a revised total of 172,874 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	110	34	86	30	22	170p

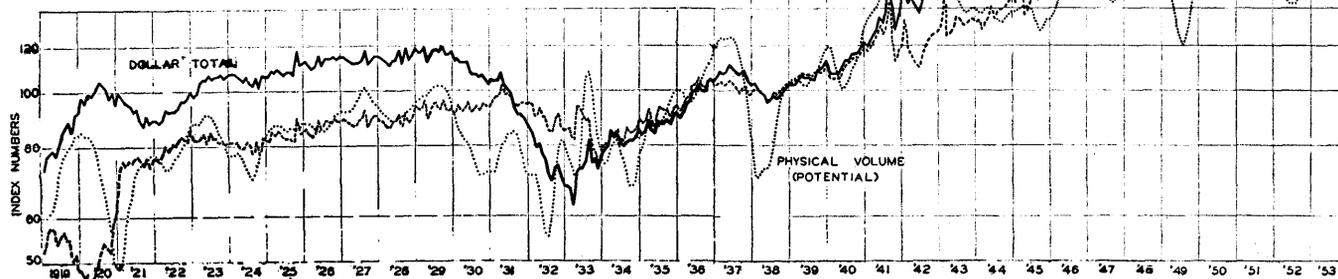
Electric-power production in the week ended August 1, 1953, increased to 8,511,622,000 kilowatt-hours from 8,460,427,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.73	1.44	2.31	2.16	7.40	8.51

Lumber production in the week ended July 25, 1953, increased. *The New York Times* seasonally adjusted index was 11 points above that for the preceding week but was 5 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	128	37	91	87	113	108

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



### DEMAND

#### Department-Store Sales

Our preliminary estimate of the seasonally adjusted index of department-store sales (based on dollar value) decreased more than 3 percent during July. (Revised data reveal that a 1-percent decrease occurred in June.) Estimated July sales were nearly 6 percent more than those of a year ago but were about 3 percent less than those 2 months ago, when sales reached a 1953 peak.

The index of prices of goods sold in department stores was unchanged during May and June. Slight price increases in February and March were eliminated in April. The June price index (more recent data are not yet available) was nearly 1 percent below that in June 1952 and was approximately 4 percent below the peak reached in September 1951.

The index of the physical volume of department-store sales (which is calculated by dividing the dollar-value index of sales by the index of prices) decreased 1 percent during June from the revised May figure. Since early 1952, when prices of department-store goods virtually leveled off, the physical-volume index shown on the chart has paralleled the dollar-sales index.

Since March 1953 the index of the potential volume of department-store sales (which is based on the production of goods sold in department stores and reflects the estimated volume of goods available for sale in department stores) has decreased approximately 1 percent each month. Since November 1952 the trend has been slightly downward.

According to supplementary data compiled and published by the Federal Reserve Board, seasonally adjusted department-store sales increased 5, 4, 4, and 3 percent, respectively, in the St. Louis, Cleveland, Kansas City, and Dallas districts during June. Sales decreased in the other districts during the month as follows: Richmond, 8 percent; Philadelphia, 6 percent; New York and San Francisco, 3 percent; Minneapolis and Chicago, 2 percent; and Boston, 1 percent. Compared with sales in June a year ago, the only major changes were in the Chicago, Cleveland, and Kansas City districts, which were up 7, 5, and 5 percent respectively, and in Richmond, which was down 5 percent.

Sales by major departments in 325 reporting department stores during the first 4 months of 1953 (later data are not available) compared with those during the corresponding period of 1952 as follows: small wares, up 3

percent; main store, women's and misses' apparel, men's and boys' wear, and housefurnishings, up 2 percent; and miscellaneous merchandise, up 1 percent; piece goods, household textiles, and basement-store sales were virtually unchanged.

In our June "Department-Store Sales" article (*Research Reports*, June 6, 1953) we indicated that the department-store share of total retail sales had decreased from 8 percent in 1947-49 to 6 percent in 1952. An interesting article in the August 1953 *Fortune*, "The Changing American Market," suggests one of the apparent reasons for the change when it states, "Americans are rapidly changing into a nation of suburbanites. Since 1947 population has increased by 15 million, but population of what loosely may be called the suburbs has increased by something like 17 million." The opening of many branch stores in such suburbs in recent years presumably reflects recognition of the trend by the department-store owners. However, as yet the department stores have not regained their previous market. Of course, other factors may have been as or even more important. For example, sales of automobiles and other goods that are not sold by department stores may have represented a greater proportion of total sales in 1952 than during 1947-49.

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 August an average decrease of 3 percent in the comparison of weekly totals with sales during the corresponding weeks of August 1952 will maintain the seasonally adjusted index at the July level.

*The trend of department-store sales thus far during 1953 continues nearly to parallel the trend during the corresponding period of 1952. However, an upward trend of general business activity during the next several months comparable to that during the last 6 months of 1952 does not seem probable. Consequently, we doubt that department-store sales will recover during the remainder of 1953 as they did in the last 5 months of 1952.*

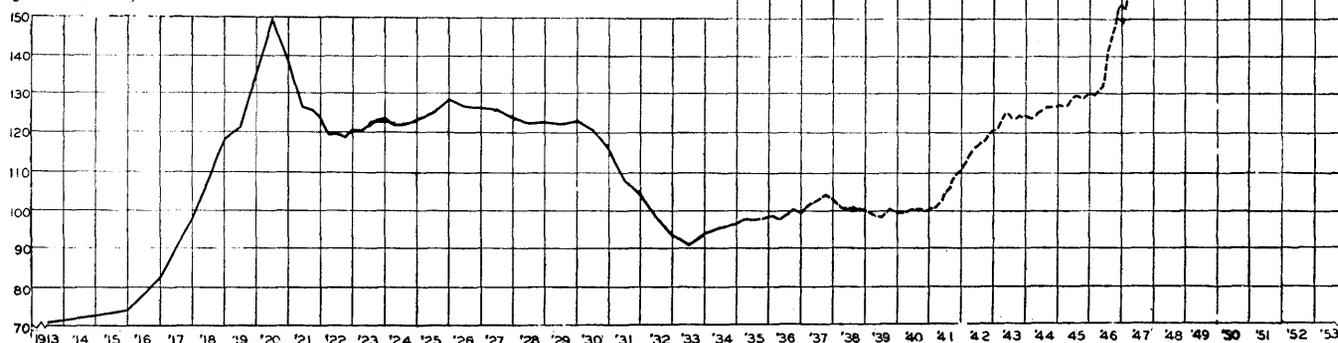
#### Latest Weekly Data

Department-store sales for the week ended August 1, 1953, were 4 percent more than sales in the preceding week but were 1 percent less than sales in the corresponding week last year.

## PRICES

### Consumers' Prices

The Bureau of Labor Statistics' index of prices of goods bought by moderate-income city families increased slightly during the month ended June 15 to an alltime high. The June index was 1 percent above that of a year ago and was 12 percent above that prevailing in June 1950, when the Korean War started. Thus con-



sumers' prices, which had leveled off from August 1952 through November 1952 and decreased through February 1953, have started upward again, at least temporarily.

The June increase was attributable primarily to higher prices for foods and partially to increased costs for housing, medical care, and miscellaneous goods and services. Prices for apparel, personal care, and reading and recreation increased slightly. Transportation costs remained unchanged.

Food prices increased more than 1 percent during June to their highest level thus far during 1953, but remained 2 percent below the alltime peak reached in August 1952 and 1 percent below those of a year ago. A 6-percent increase in prices of fruits and vegetables, a 2-percent increase in prices of meats, poultry, and fish, and slight increases in prices of cereals and bakery products occurred during June.

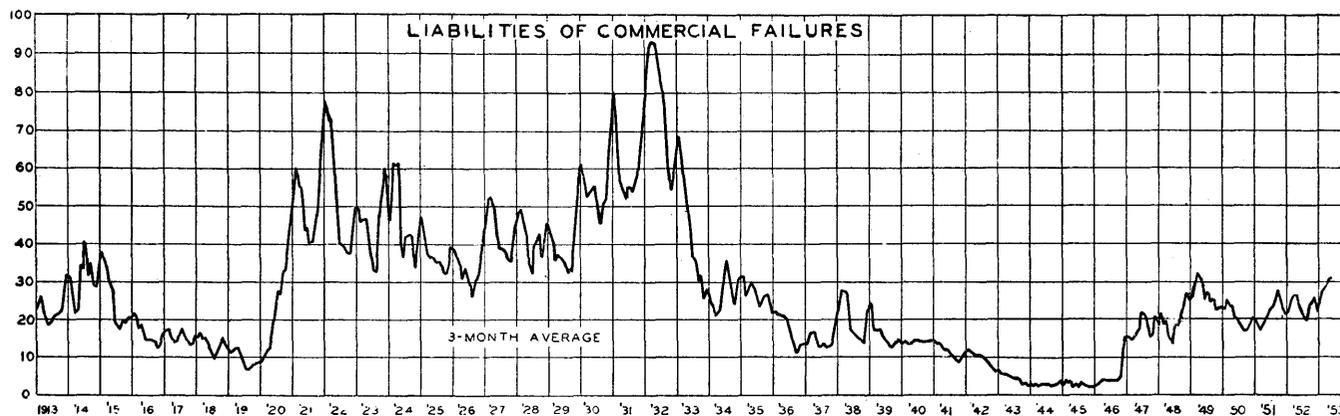
Apparel prices decreased slightly during June but have been virtually unchanged during the last 5 months. June prices were 4 percent below the alltime peak reached in September 1951 and 1 percent less than those of a year ago.

Housing costs increased slightly during June to an alltime high, 3 percent above those of a year ago. Among the subcomponents of the housing-costs series, residential rents have increased 5 percent since June 1952; gas and electricity costs were 2 percent higher than those in June 1952; and prices for furniture were virtually unchanged from those prevailing a year ago. Rents probably will increase further in the near future, following the removal of additional Federal rent controls during June.

Transportation costs remained unchanged during June as higher prices for gasoline and automobile repairs were counterbalanced by lower prices for used cars. The higher retail price of gasoline presumably reflected higher prices for crude oil and higher costs of distribution. Transportation costs have virtually leveled off during 1953.

The cost of medical care increased slightly during June to an alltime high, 3 percent above the level of June 1952. These costs have increased 2 percent since the beginning of 1953.

*Preliminary reports indicate that the consumers' price index increased further during the month ended July 15. Moreover, we expect a further rise in our index of inflation during the second half of 1953; consequently, we believe a significant reversal of the upward trend of prices seems improbable before early 1954.*



### Commodities at Wholesale

	1952		1953	
(August 1939=100)	Aug. 6	July 30	Aug. 6	Aug. 6
Spot-Market Prices (22 basic raw materials)	294	271	269	
Commodity Futures Prices (Dow-Jones Daily Index)	372	334	334	

## BUSINESS

### The Trend of Commercial Failures

Liabilities of commercial failures, which increased 19 percent during May, decreased 1 percent during June.<sup>2</sup> Although seasonal adjustment of this series is difficult, the June decrease was not nearly so great as usual. The liabilities involved in commercial and industrial failures during June totaled \$32,379,000, compared with \$32,789,000 during the preceding month and \$21,222,000 during the corresponding month a year ago. The number of failures in June was 817, compared with 697 in May and 671 in June 1952.

During the first half of this year the liabilities of commercial and industrial failures were \$174,400,000, compared with \$146,900,000 during the corresponding period a year ago and \$168,600,000 during the first 6 months of 1949, when the previous peak was reached. The 1953 first-half-year figure is the highest on record since 1933, when liabilities were \$327,600,000 during the corresponding period.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of liabilities of commercial failures. The May average increased slightly more than 1 percent to a level 11 percent above the Korean War peak reached in September 1951. Although 4 percent below the post-World War II high attained in March 1949, the average has increased 57 percent since the 1952 low reached in August.

Growing competition in various fields of business apparently has been responsible in large part for the continuous increase of commercial and industrial failures. Dun & Bradstreet reports, for example, 240 failures in the automotive retail group in the first half of this year, compared with 164 during the corresponding period a year ago, an increase of nearly 50 percent.

The breakdown of June failures liabilities into major types of businesses shows that increases occurred in retail trade and in construction; liabilities of failures

among manufacturing industries, wholesale trade, and commercial services decreased. The proportion of total liabilities of construction and retail trade increased from 7 to 10 and from 21 to 38 percent respectively. The manufacturing-industries liabilities decreased from 43 to 35 percent; the proportion of wholesale-trade and commercial-services liabilities decreased from 18 to 12 and 11 to 5 percent respectively.

(Although failures have been substantially greater this year than those during the corresponding period a year ago, the number of new businesses also has been substantially above the total for a year ago. The number of stock corporations chartered in the country as a whole was 8,926 during June, slightly less than the May figure (8,968) but 14 percent more than the 7,819 recorded in June 1952. According to Dun & Bradstreet, Inc., the total of new incorporations for the first half of 1953 was 54,471, the most since 1947, when 59,373 were recorded. The 1953 figure is 15 percent above that of 1952.)

Based on preliminary weekly data, we have estimated that the number of failures during July totaled 756, compared with 817 during June and 580 during July a year ago. Although the number of failures does not reflect the liabilities of those failures precisely, at times it provides an early clue to major changes in liabilities. Thus, liabilities during July probably will be somewhat lower than those during June.

### Conclusions

*The preliminary estimate of failures liabilities during July suggests that in the computation of the 3-month moving average for June the relatively low April figure may be replaced by a somewhat higher July average. Consequently, this series probably will increase further during June. The recent upward trend, which already has continued for 5 months, is additional evidence suggesting a downturn in general business activity later this year or early in 1954.<sup>3</sup>*

<sup>3</sup>We have mentioned on previous occasions that the inverted seasonally adjusted monthly series of liabilities of commercial and industrial failures is one of the earliest and most consistent indicators of cyclical changes of business activity; the series usually leads cyclical peaks of general business activity by an average of nearly 11 months and leads cyclical troughs by an average of nearly 8 months.

<sup>2</sup>Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosures, and voluntary withdrawal from business with known losses to creditors.

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