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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Council of Economic Advisers

The recent appointment of Dr. Walter W. Stewart to the Council of Economic Advisers has not received much publicity. Moreover, we have been unable to find any recent material that would reveal his *present* opinions on current matters. However, information that we have found does provide some basis for judging what his views may be.[1]

Because this information represents points of view expressed more than 20 years ago, there is no assurance that Dr. Stewart holds similar views today. However, he then was about 45 years of age and we should not expect great changes in his views since then. In as short an article as this, many statements necessarily will be taken from context, thus incurring the potential danger that inadvertently certain significant qualifications have been overlooked. The following comments should be read with these reservations in mind.

His views on monetary policy probably should first be placed into the broader perspective that Dr. Stewart believes so necessary for dealing with economic problems.

"I should not want to minimize the importance which the monetary and credit factor plays in the trade cycle, but I should feel that in general one would get a truer picture, in the current state of mind, if one emphasized factors other than money, because those monetary factors are so obvious and so much before us. * * * My feeling is that the monetary theorist is not sufficiently familiar with industrial development to put it in its proper perspective as part of the general economic situation and his dwelling upon monetary factors is frequently the result of lack of familiarity with the industrial conditions."

Dr. Stewart's testimony was on six major problems. On the first of these, "Problems Associated with the Restoration of the Gold Standard," Dr. Stewart said the following: "The gold standard is an efficient means of maintaining an equilibrium once established, but legal stabilisation in terms of gold does not itself create an equilibrium. Gold furnishes a necessary basis, I think, for the restoration of equilibrium, and in a great many cases it forces readjustments in order to maintain the gold standard." With respect to attributing the depression in Britain in 1926 to the return to the gold standard, Dr. Stewart expressed the belief that "I think it would have become increasingly worse if you had not returned to gold in 1925."

On "The Profitable Use of Credit," the following comments are revealing. "I regard no credit situation as sound, whether it is expanding or not, unless the borrower makes a profit on the use of the money which he borrows. * * * Until the conditions of industry are such that further expansion of credit will benefit the borrower and not merely be repaid to the lender, there is no advantage in the growth of credit. * * * Credit cannot be regarded as a stimulus to bring about a better industrial situation, unless that situation is itself being readjusted to basic costs."

Whether credit to the Government for public works is desirable during depressions called forth the following remarks: "I should think no one would favour Government loans for the purpose of public works, except primarily as emergency measures. * * * All that can be done is to alleviate the immediate situation. I see nothing in such a programme that will do more than mitigate the situation, and I have little confidence that it would grow into further prosperity unless other conditions have adjusted themselves so that the ground is ready for the seed."

In briefly discussing "Gold as a Basis of Credit," Dr. Stewart had the following to say: "What impresses me as being of more immediate importance than the world's stock of gold is whether the world movements of gold reflect something. Do they reflect merely a magnet at the receiving end, or a weakness of the position of the country that is losing the gold? If there is any virtue in the gold standard it is partly that it is intended to be a thermometer measuring the economic condition of a country. * * * I have no assurance that the gold supply will either be adequate or that it may not be very much deficient. It is for that reason that one welcomes the co-operation between Central Banks, because once given an equilibrium, or something that approaches equilibrium, in international trade and finance, it is within the power of the Central Banks, not only through concerted action but through modifications, if necessary, in their legal arrangements, to make fuller use of the gold they have."

The fourth major problem was "Investment Funds in Relation to Bank Credit." Dr. Stewart suggested: "It is usually in periods when production is greatest that con-

[1]The source of Dr. Stewart's views is his testimony before the Macmillan Committee, July 3-4, 1930, as published in *Monetary Policy and Economic Prosperity*, No. 433 in the series "National Economic Problems," published and distributed by the American Enterprise Association, Inc., 1950.

sumption is also greatest, and saving is greatest; when production declines, consumption is likely to be maintained, or less curtailed than production, and saving is consequently reduced. Now, it is by this irregular flow of investment funds, because of their release or retention, that credit largely influences business activity. Thus, we get the spurts in capital expenditure, the rapid building of plant and equipment such as we had in the days when railroads were being built, or more recently in the motor industry in the United States. Following the introduction of a new invention requiring great capital expenditure, great investment takes place in that field. This is usually followed by some form of liquidation, a loss of confidence on the part of investors and a disposition to wait again until the skies are clear before they make further investments. It is in that field of investment credit, which, so far as I can see, bears no relation necessarily to the total volume of bank credit, that I feel the relation is most direct between finance and industry. A great many of the things that happen in the short-money market, or that are influenced by Central Bank policy, only work indirectly on industry * * * [but] it is through their control over the short market that I think Central Banks can chiefly influence the extent to which investment activity rises and falls. * * * My own opinion is that those who have emphasized the extent to which money rates, either short or long, are decisive in influencing business activity base their conclusions largely upon the coincidence that following a period of relatively low money rates there is a business revival. But so many other things happen, during the period of relatively low money rates, which are important to that revival. Trade depressions are usually accompanied by the liquidation of insolvent concerns, changes in management, the improvement of operating conditions, even the installation of new equipment, the gradual restoration of confidence, and the healing that comes only with time. So the purely artificial reduction of money rates is not, I think, necessarily decisive in bringing about a revival.

"The Theory of Cheap Credit" resulted in Dr. Stewart's comments that "those who turn so readily to the money market as the cure for trade depression, turn to it partly because credit appears to be one of the few elements of elasticity. Because credit can go up and down, and because there is a large degree of rigidity in the other elements, we are tempted to expect the elasticity of the money factor to offset the rigidity of the others. * * * I realise that the Central Bank has a public responsibility, and is a recognized centre of authority in monetary matters. But I cannot regard the Central Banks as responsible for the entire business position. It is undoubtedly an important centre of action. It can expedite a process or it can delay it. * * * But no matter how much the Central Banks may do, it will leave certain things undone, and things over which they have no control. * * * I regard wage adjustments as ever so much more important in industry than changes in Bank Rate or than anything bankers can do. * * * It seems to be one of the easiest things to overlook in an abstract statement about credit, that it always involves indebtedness. * * * other business circumstances must be favorable before an increase of credit, along with other elements, can become a decisive factor in bringing about a growth of industry. If you do not start from a sound position, an expansion of credit leads subsequently to a series of business losses which result in serious liquidation. You have, therefore, to assume that in 1921 and in the years following, the position in this country [Britain] was properly adjusted and fully liquidated and industry ready to go ahead, before you are justified in concluding that a growth of credit would have assisted in the restoration of industry and the decrease of unemployment."

With respect to the final subject, "Productivity the Determining Factor," Dr. Stewart's remarks were largely directed toward suggesting differences between the economies of Great Britain and the United States.

Conclusions

We have now completed articles on all three of the present members of the Council of Economic Advisers.[2] *In general, the new Council is somewhat more "conservative" (in the popular sense of the word) than its predecessor. We suspect that the near-future economic reports of the Council and the President will differ substantially from those in the past several years and we are looking forward to the new reports with interest.*

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 85.8 percent of capacity for the week ended December 12, 1953, was 2 percent less than that in the preceding week and was 13 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Percent of Capacity†	64	15	27	61	106	86p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	.88	.23	.41	.94	2.20	1.94

Automobile and truck production in the United States and Canada during the week ended December 5, 1953, was estimated at 124,239 vehicles, compared with a revised total of 74,290 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Vehicles (000 omitted)†	31	11	86	98	129	124p

Electric-power production in the week ended December 5, 1953, increased to 8,582,549,000 kilowatt-hours from 8,138,165,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.81	1.51	2.20	2.34	8.17	8.58

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

New Consumer Goods Per Capita

The index of new consumer goods per capita (a 3-month moving average plotted at the last month) unadjusted for long-term trend increased slightly during October, but was 5 percent below the 1953 high reached during April. The October index was 3 percent below that of the corresponding month a year earlier and was 16 percent below the alltime high reached in October 1950.

The index adjusted for long-term trend, which decreased 1 percent during September, was unchanged during October. The October index was 6 percent below that of October 1952 but was only 1 percent above that for January and February 1952, when the Korean War low was reached.

Production of consumer goods, which decreased 2 percent during September, increased slightly during October. The increase was attributable primarily to an 8-percent increase in automobile production. The

[2]See the *Research Reports*, March 16, 1953, and September 14, 1953.

changes of all other components of the index were as follows: furniture production and residential construction both increased 2 percent; food and textile production decreased 1 and 2 percent respectively.

Automobile production, which totaled 574,000 cars and trucks during September and 620,000 units during October, decreased to 361,837 cars and 76,640 trucks during November. November production of 438,477 cars and trucks was the least since August 1952, when output was curtailed as an accompaniment of the steel strike. According to *Automotive News*, inventories of new cars in the hands of auto dealers rose to a postwar high as of November 1. The average was 13.5 new cars per dealer, compared with 12.8 a month ago and 9.0 cars a year ago. The previous high for the postwar period was 13.3 reached last August 1. Since November 1, a slowdown in output has been alleviating the situation, according to *Automotive News*.

The October figure for residential-construction contract awards, which is a 3-month moving average, was 30 percent below the alltime high reached at the start of the Korean War in July 1950. The number of new dwelling units started during October was 88,000, compared with 92,000 during September and 101,000 units in October a year earlier. The total started during the first 10 months of 1953 was 951,400, compared with 969,400 units during the corresponding period of 1952. Contract awards for apartment buildings thus far during 1953 have increased substantially in spite of decreases in total residential contract awards.

Some shoe manufacturers have complained that orders generally have decreased during recent months. Shutdowns of some shoe factories and layoffs of workers have been reported in recent weeks.

In view of the 29-percent decrease in automobile production during November, the increase of the October index of new consumer goods per capita appears to be a temporary interruption of the recent downward trend. A further general downward trend of the index of new consumer goods per capita seems to be the most probable development during the next several months.

DEMAND

Purchasing Media

Total purchasing media increased slightly during November to $127,800,000,000, nearly $100,000,000 more than the figure for October 1953 and $1,000,000,000 more than that for November last year.

During the last 8 years purchasing media have increased during November, and the average increase has been $1,100,000,000. Thus, this year's increase is substantially less than those of previous years.

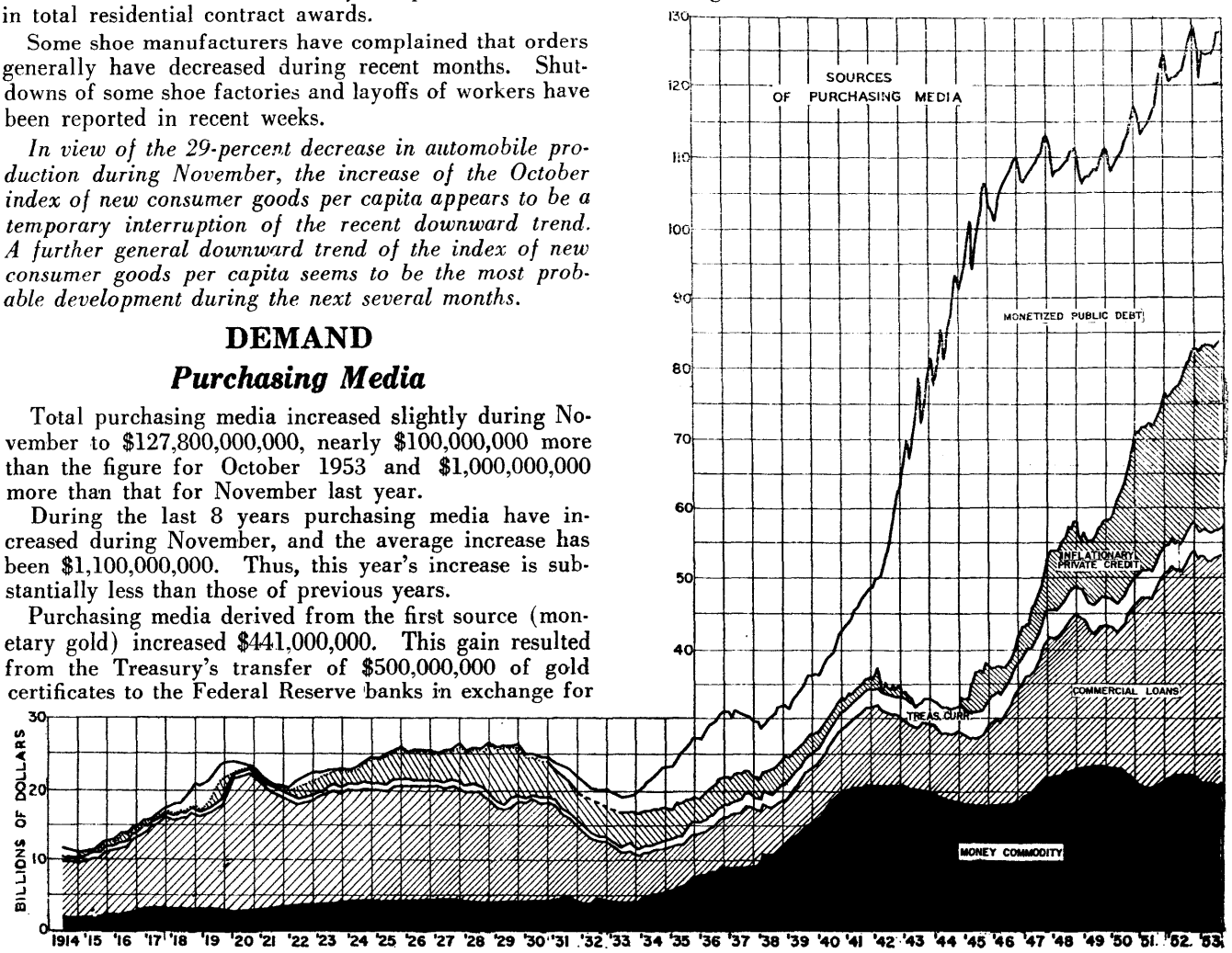
Purchasing media derived from the first source (monetary gold) increased $441,000,000. This gain resulted from the Treasury's transfer of $500,000,000 of gold certificates to the Federal Reserve banks in exchange for $500,000,000 of Government securities. Since November last year the Nation's gold stock has decreased $1,350,000,000. The recipients were primarily Great Britain and Western European countries.

Commercial, industrial, and agricultural loans, the second source, decreased $120,000,000 during November. The decrease was the first during a November since 1943. During the last 8 years the average November increase in these loans has been $480,000,000. Apparently the decrease of commercial, industrial, and agricultural loans during November was attributable primarily to a decrease in loans to sales finance companies and public utilities. Loans to manufacturers of food, tobacco, and liquor and those to commodity dealers increased during November, but the increases this year were smaller than those during November a year earlier.

Purchasing media derived from the third source, Treasury currency, have not changed greatly during recent months.

Purchasing media derived from the fourth and fifth sources, both of which are potentially inflationary, decreased $260,000,000 during November to $70,323,000,000. The total was about $1,100,000,000 more than that at the end of November 1952. About $700,000,000 of this increase has been derived from the fourth source, inflationary private credit, and about $400,000,000 from the fifth source, monetized public debt.

Investment-type assets of the commercial banks (including the Federal Reserve banks) increased $880,000,-



000 during November: loans on real estate increased $30,000,000; loans on securities decreased $100,000,000; other loans, which include consumer installment credit, decreased $10,000,000; corporation and municipal securities held by commercial banks decreased $70,000,000; Government securities held by commercial banks increased $1,360,000,000; and Government securities held by Federal Reserve banks decreased $330,000,000.

The purchasing-media total during the first 11 months of 1953 increased 2 percent, compared with gains of 5.6, 5.7, and 1.8 percent during the corresponding periods of 1952, 1951, and 1950, respectively.

Purchasing media probably will increase about $2,000,000,000 during December. (The Treasury cash deficit during December is expected to be at least $1,000,000,000, if not more; the usual Christmas currency expansion may add another $1,000,000,000.) Thus, last year's December peak of $128,700,000,000 may be exceeded by $1,000,000,000 or more; but the December-to-December increase apparently will be substantially less than the $4,200,000,000 increase during the calendar year 1952.

The first-quarter decrease in purchasing media during 1953 was more than $7,000,000,000. However, a portion of the drop was attributable to a substantial liquidation of Treasury-bill holdings by the commercial banks during the last few weeks of March. This liquidation was not related directly to first-quarter tax payments, and it augmented the first-quarter deflation. Unless some such development occurs, the purchasing-media decrease during the first quarter of 1954 may be less than that during the corresponding period of 1953, but somewhat more than the $4,000,000,000 decreases that occurred during the first quarters of 1952 and 1951 and the $3,400,000,000 decrease of 1950. There are, as usual, several important unknowns, such as the amount of tax-savings notes corporations will turn in for tax payments. However, we now expect the first-quarter decrease of purchasing media in 1954 to be somewhat less than that during 1953 but somewhat more than those of 1952 or 1951.

Department-Store Sales

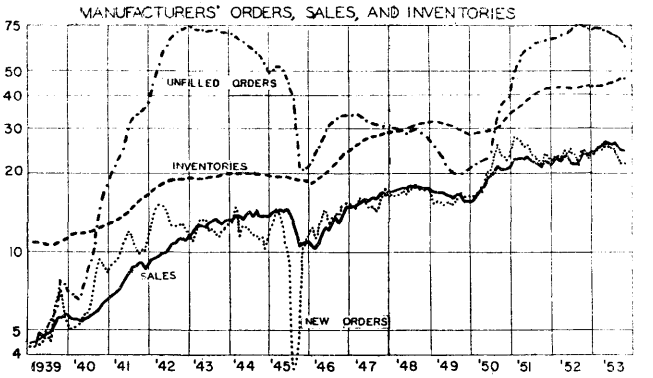
Department-store sales for the week ended December 5, 1953, were 43 percent more than sales in the preceding week but were 3 percent less than sales in the corresponding week last year.

BUSINESS

Manufacturers' Orders, Sales, and Inventories

The seasonally adjusted dollar value of manufacturers' new orders was unchanged during October, remaining at the low for the year first reached in August. The October figure was 12 percent below the 1953 high reached during April, May, and June and was 7 percent below that of the corresponding month a year earlier. The level of manufacturers' new orders during October was 21 percent below the alltime high reached in January 1951.

The seasonally adjusted dollar value of new orders for durable goods (one of the eight "leading" statistical indicators of business-cycle changes chosen by the National Bureau of Economic Research) was unchanged during



October at a level 14 percent below that of October 1952. The trend of the series appears to have been downward since February 1953.

The seasonally adjusted dollar value of manufacturers' sales, which decreased 2 percent during September, decreased slightly during October to $24,800,000,000. The October level was equal to that of October 1952, when the high for that year was reached but was 7 percent below the alltime high reached during April 1953. The October decrease occurred in sales by nondurable-goods industries. Sales by the durable-goods industries remained virtually unchanged.

Unfilled orders (this series is not adjusted for seasonal variations), which have been decreasing each month since March, decreased 5 percent further to a level 19 percent below the alltime high reached in September 1952. Decreases occurred in the unfilled orders of both the durable- and the nondurable-goods industries. Since October last year, unfilled orders of the durable-goods industries have decreased 14 percent and those of the nondurable-goods industries, 16 percent.

The seasonally adjusted dollar value of manufacturers' inventories, which has increased each month since April, decreased slightly during October to $46,300,000,000 from the record level of $46,500,000,000 in September. Decreases occurred in inventories of both the durable- and the nondurable-goods industries; however, the decrease in inventories of the nondurable-goods industries was somewhat greater.

The ratio of manufacturers' inventories to sales remained virtually unchanged during October. The October figure was 6 percent below that of the corresponding month a year earlier and 9 percent below that of December 1951, when an alltime high was reached. During the 5 months prior to October, the ratio had been increasing relatively rapidly and is now near the peak levels of 1949.

Recent developments provide little reason for believing that the present downward trend of manufacturing activity will change in the near future. We expect some further curtailment for the next few months at least.

PRICES

Commodities at Wholesale

(August 1939=100)	*1952* *Dec. 10*	*1953* *Dec. 3*	*1953* *Dec. 10*
Spot-Market Prices (22 basic raw materials)	278	272	271
Commodity Futures Prices (Dow-Jones Daily Index)	358	341	342