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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *National Defense Expenditures*

Since mid-1950 national-defense efforts have undergone a major expansion in terms of manpower, equipment, and dollar expenditures. Prior to July 1950 the average annual amount of military expenditures for the Army, Navy, and Air Force was about \$12,000,000,000, and the number of men in uniform was somewhat more than 1,000,000. Production of military equipment was limited largely to the replacement of wornout or obsolete materiel, and the Nation's military strength was considered sufficient to defend the United States and to maintain order in the occupied areas of Europe and Asia.

The program changed radically after the Korean War started. On July 19 President Truman asked Congress for an appropriation of \$10,000,000,000 for an increase in military potential, and further requests soon followed. The total amount of military appropriations approved by Congress during the period from mid-1950 to mid-1953 was approximately \$140,000,000,000.

Actual defense expenditures (as shown on the accompanying chart) increased rapidly during 1950-53. Monthly defense expenditures (including those for the Army, Navy, and Air Force, as well as for foreign military aid and for atomic energy) during early 1950 were approximately \$1,000,000,000. By early 1952, these expenditures had more than tripled to \$3,600,000,000. The rate of increase slackened substantially during 1952. Moreover, during the first 7 months of 1953 expenditures leveled off at approximately \$4,200,000,000 to \$4,500,000,000 a month. Since July, a downward trend has become apparent.

The buildup of military strength during 1950-53 is said to have been based on the idea of preparing for the "crisis year," the "crisis year" being the year when the Soviet Union supposedly would be able to start an offensive war against the Western Powers. In 1950 the "crisis year" was 1952. As time passed, however, the "crisis year" was gradually shifted to the future, and the military program was "stretched out." By the time the Truman Administration left office, the "crisis year" concept had become somewhat vague and was less emphasized.

The strength of the Armed Forces projected for mid-1954 was an Army, Navy, and Air Force of approximately 3,500,000 men; an Army of 21 active divisions, a Navy of more than 1,200 active operating vessels and 15,000 modern aircraft, an Air Force of 143 groups with a total of about 21,000 planes, and a Marine Corps of 3

divisions and 3 air wings. The achievement of these goals was later postponed by the Truman Administration to 1955-56.

Few of these goals had been reached by the end of 1952. The combined manpower of the Armed Forces was nearly 3,500,000 men; but the Army had only 20 divisions, some of them incomplete, and the Air Force had only 103 groups, substantially less than the 143 groups originally scheduled. Moreover, the modernization program of the Navy and Air Force had been only partially completed.

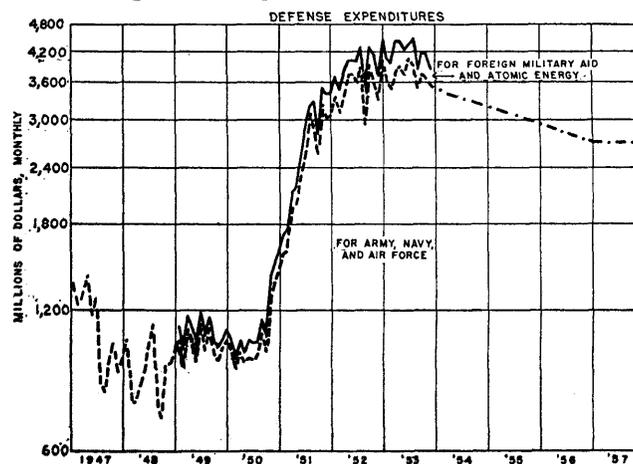
#### *The "New Look"*

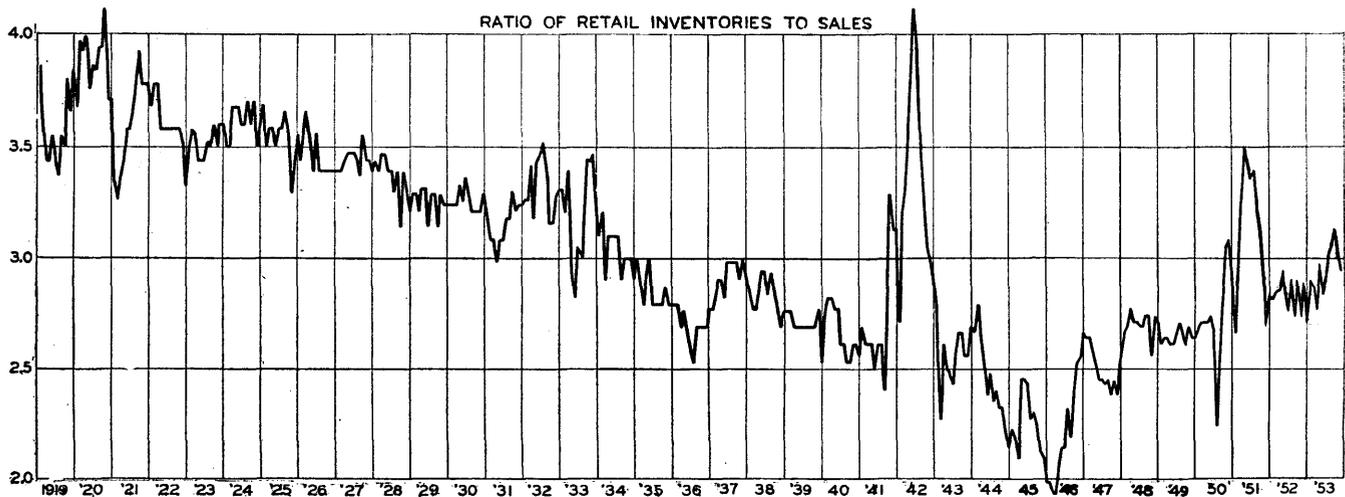
Soon after taking office on January 20, 1953, the new Administration announced a reduction of defense expenditures from the \$46,300,000,000 originally scheduled by the outgoing Administration for fiscal 1954 to \$42,000,000,000. A major review of the defense effort was to be worked out by the new Chiefs of Staff who were to be installed in August 1953. The new Chiefs now have presented a military program that popularly is known as the "New Look."

A "New Look," according to Admiral Arthur W. Radford, Chairman of the Joint Chiefs of Staff, is "a reassessment of our strategic and logistic capabilities in the light of foreseeable developments, certain technological advances, the world situation today, and considerable estimating of future trends and developments."

Probably the most significant change embodied in the "New Look" program is that revealed by President Eisenhower in April of replacing a "crisis year" approach by the concept of military preparation for the long run.

Other significant aspects of the "New Look" as pre-





sent by Admiral Radford in his address to the National Press Club and analyzed by Mr. Hanson Baldwin of *The New York Times*, include the following:

1. *The trend to air power.* In the words of Admiral Radford, "Today's emphasis is actually pointed toward the creation, the maintenance, and the exploitation of modern air power. Today, there is no argument among military planners as to the importance of air power."

2. *The trend to new weapons.* In view of the substantial progress that has been made in atomic and other new weapons, many military planners apparently believe that these weapons can be effectively used by our combat units and thus hope to eliminate the need for a great amount of manpower and at the same time save a substantial amount of money.

3. *Re-assessment of Russia.* According to Mr. Baldwin, the present thinking among top military planners is that the present estimates of Russian strength are exaggerated to some extent. He states, "The attempt, therefore, to reach a happy medium point in our assessment of Russian strength is a continuing factor—and still an argumentative one—in all military considerations."

4. *Strategic commitments.* In view of the fact that 15 of the 23 active divisions at present are stationed overseas, the Joint Chiefs of Staff are looking forward to a "disengagement" from the continent of Asia as rapidly as possible. The consequences of such a policy would be a substantial reduction of our Armed Forces in Asia and presumably some reduction in costs.

#### *Economic Implications of the "New Look"*

On the basis of Mr. Baldwin's estimates and those of U. S. News and World Reports, *the Nation's* monthly expenditures for "defense" alone (excluding foreign military aid and atomic energy) will decrease to approximately \$3,000,000,000 by mid-1955 and to approximately \$2,700,000,000 by mid-1957.

As far as the effects on the growth of the labor force are concerned, the implementation of the "New Look" probably would result in a reversal of the trend during the last 3 years, when the Armed Forces were absorbing nearly the entire annual increase in the labor force. Although the increase in the working age groups is expected to be less than that during recent years, the manpower contemplated for the Armed Forces presumably will permit a more rapid expansion of the labor force.

The effect of the "New Look" on the probability of balancing the budget is difficult to ascertain. A balanced budget does not seem probable in the immediate

future, but the curtailment of military expenditures may prevent future deficits from being as large as some observers had expected would result from the decrease in taxes now scheduled.

## SUPPLY

### *Industrial Production*

Steel-ingot production, scheduled at 85.0 percent of capacity for the week ended December 19, 1953, was 2 percent less than that in the preceding week and was 15 percent less than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	64	14	27	58	108	85p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	.88	.21	.41	.89	2.24	1.91

Automobile and truck production in the United States and Canada during the week ended December 12, 1953, was estimated at 108,314 vehicles, compared with a revised total of 123,138 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	33	23	86	101	122	108p

Electric-power production in the week ended December 12, 1953, increased to 8,661,131,000 kilowatt-hours from 8,582,459,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.84	1.52	2.23	2.38	8.14	8.66

Lumber production in the week ended December 5, 1953, decreased. *The New York Times* seasonally adjusted index was 12 points below that for the preceding week and was 20 points below that for the corresponding week last year.

	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	130	36	57	97	132	112

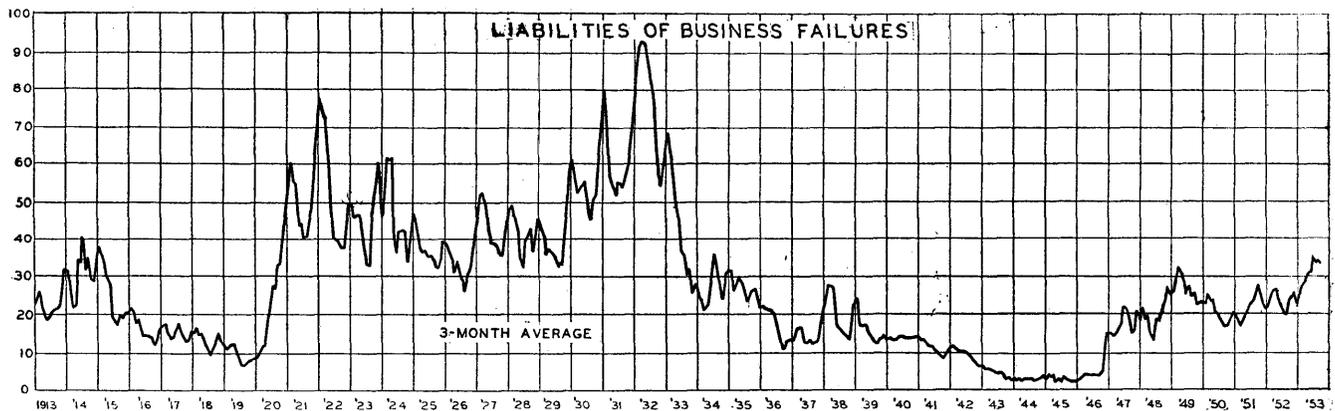
†Latest weekly data; corresponding weeks of earlier years  
p=preliminary

## BUSINESS

### *Ratio of Retail Inventories to Sales*

Our preliminary estimates indicate that the ratio of retail inventories to sales, which decreased 3 percent during October, decreased 3 percent further during November. The November ratio was 3 percent above that for November last year and was 5 percent above the average for 1952. The upward trend of the ratio from the beginning of the year through September apparently has been reversed, at least temporarily.

The seasonally adjusted index of department-store in-



inventories, which remained unchanged during October, is estimated to have decreased 1 percent during November. The seasonally adjusted index of sales, which increased 3 percent during October, increased 2 percent further during November. Consequently, the ratio decreased 3 percent. (The ratio is derived by dividing the inventory index by the sales index.) November inventories were 4 percent greater than those of November 1952 and 8 percent greater than the average level of inventories during the year 1952.

The dollar value of new orders placed by department stores during October (later data are not available) was 9 percent more than that during September but 5 percent less than that during October last year. Although there are no precise seasonal changes in new orders from month to month, the increase in October seems to have been relatively large.

The dollar value of outstanding orders decreased 7 percent during October, compared with a seasonally expected decrease of 9 percent. Outstanding orders at the end of October were 19 percent less than those at the end of October 1952.

The dollar value of goods received by department stores during October increased 17 percent, slightly more than the 16-percent gain seasonally expected.

*Retailers apparently have exercised some caution during the last few months in their placing of new orders. This caution, together with a recovery in sales, has resulted in reducing retail inventories somewhat. Consequently, the upward trend of the ratio of retail inventories to sales has been reversed, temporarily at least. The importance of December sales to department stores is so great that any conclusion concerning the near-future inventory situation probably should await developments during that month. However, the November level of the ratio was relatively high, compared with the average level during 1951 and 1952. Unless further improvement occurs during December, January 1954 white sales presumably will offer bargains to consumers.*

### The Trend of Business Failures

The series shown on the accompanying chart is a 3-month moving average (plotted at the mid-month) of liabilities of business failures.<sup>1</sup> The September aver-

<sup>1</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.

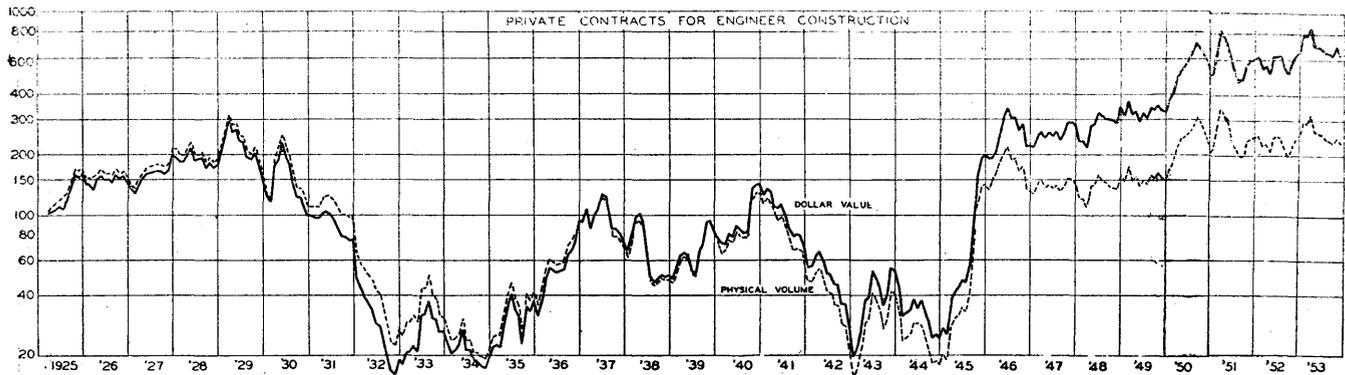
age decreased 3 percent to a level 5 percent below the 1953 high reached in June. The September average was 3 percent above the peak reached in March 1949 and was 68 percent above the 1952 low reached in August.

Liabilities of business failures, which increased 19 percent during September, increased 10 percent further during October to a level only 7 percent below the post-World War II high reached in July. (It was because the October figure replaced this unusually large July figure in the computation of the 3-month moving average, that the September average decreased.) October failure liabilities were 6 percent greater than those during October 1952.

The liabilities involved in business failures during October totaled \$37,076,000, compared with \$33,817,000 during September and with \$35,049,000 during October a year earlier. The October figure was the largest for an October since the October 1932 total of \$52,900,000. The number of failures in October was 840, compared with 686 in September and with 621 in October 1952. The number was the largest thus far this year. Average liabilities per failure decreased to \$44,138 during October from \$49,296 during September. The 1953 record was \$55,014 in July.

A breakdown of October failure liabilities into major types of businesses reveals that increases occurred in commercial services and manufacturing and mining. Liabilities of construction and of retail and wholesale trade decreased. The proportion of total liabilities represented by commercial services and manufacturing increased from 5 and 21 to 9 and 22 percent, respectively. The proportion represented by construction liabilities decreased from 13 to 11 percent; those of retail and wholesale trade decreased from 49 and 12 to 48 and 10 percent, respectively.

The business-failure liabilities for the first 10 months of this year totaled \$313,604,000, compared with \$241,157,000 during the corresponding period a year earlier. According to *Dun's Statistical Review*, the liabilities of mining- and manufacturing-industry failures increased from \$90,643,000 during the first 10 months of 1952 to \$121,555,000 during the corresponding period of this year; liabilities of wholesale-trade failures increased from \$36,597,000 to \$43,122,000; liabilities of retail-trade failures increased from \$62,636,000 to \$96,459,000; and liabilities of failures in the construction field increased from \$29,489,000 to \$34,552,000. The only major group whose failure liabilities decreased during the first 10 months of 1953 compared with those during the first 10 months of 1952 was commercial services, decreasing from \$21,792,000 to \$17,916,000.



According to our preliminary estimate based on *Dun's* weekly reports, the number of failures was approximately 800 during November. From this figure we cannot compute precisely the failure liabilities during November. However, it seems probable that November liabilities were more than those during August and that, therefore, our October 3-month moving average will increase.

#### Conclusions

Although our 3-month moving average probably will increase during October, we suspect that the June level may not be reached. Thus, there is no evidence as yet that the upward trend earlier in the year has been resumed. A reversal of the upward trend would be some indication that the recession of general business activity that appears to have started may be relatively short-lived; a resumption of the upward trend would suggest that a recession of longer duration was under way.<sup>2</sup>

### Private Contracts for Engineering Construction

The 3-month moving average of the dollar value of private awards for engineering construction, which increased 10 percent during October, decreased 11 percent during November to a level slightly below that for September. The November figure is only slightly below that for November 1952, but is 25 percent below the alltime high reached in March.

The dollar value of contract awards for private engineering construction during November (a 4-week month) was \$405,000,000, compared with \$856,400,000 during October (a 5-week month). According to the *Engineering News-Record*, the largest decrease was in industrial building, which decreased 55 percent to \$148,000,000, the smallest figure since July 1953. Private mass-housing contract awards totaled \$174,000,000 in November, compared with \$291,000,000 a month earlier. Commercial building contracts awarded in November totaled \$61,000,000, compared with \$95,000,000 during October.

Private engineering-construction contract awards during the first 11 months of 1953, which totaled \$7,736,000,000, were 18 percent more than those during the corresponding period of 1952. Industrial building increased 1 percent to \$2,609,000,000; mass housing increased 16 percent to \$3,225,000,000; and commercial building increased 50 percent to \$1,066,000,000. (Of interest is the fact that during the first 11 months of

<sup>2</sup>We have mentioned on previous occasions that the inverted seasonally adjusted monthly series of liabilities of business 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.

1953 public engineering-construction contract awards reported by *Engineering News-Record* decreased 28 percent.)

The *Engineering News-Record* index of construction costs was relatively unchanged during November and December. The index increased 4 percent during 1953, compared with an increase of 7 percent in 1952. The *Engineering News-Record* states, "The long advance in construction costs—in terms of wages and material prices—showed a marked slowdown this year."

The 3-month moving average of the physical volume of private engineering construction (which is calculated by dividing the dollar value of contract awards by the construction-cost index) decreased 10 percent during November. The November figure was 28 percent below the 1953 high reached in March and was 4 percent less than that of November 1952.

The Commerce Department's most recent report on planned plant and equipment outlays (based on a survey made in November) indicate that businessmen plan to spend \$7,000,000,000 during the first quarter of 1954. This figure is \$200,000,000 larger than that during the first quarter of 1953, but is 1 percent less than the average level during the last three quarters of 1953.

#### Conclusions

Although the 1953 dollar value of private contract awards for engineering construction probably will reach an alltime high, the trend of the series has been downward since the peak reached last March. Because of one unusually large industrial contract awarded two weeks ago, our 3-month moving average probably will increase somewhat during December. However, there is little evidence as yet that the downward trend of this series will be reversed in the near future; consequently, we expect that the December increase will be only a temporary interruption of the recent trend.

### DEMAND

#### Department-Store Sales

Department-store sales for the week ended December 12, 1953, were 14 percent more than sales in the preceding week but were 3 percent less than sales in the corresponding week last year.

### PRICES

#### Commodities at Wholesale

	1952		1953	
	Dec. 17	Dec. 10	Dec. 16	Dec. 16
(August 1939=100)				
Spot-Market Prices	274	272	270	
(22 basic raw materials)				
Commodity Futures Prices	354	342	342	
(Dow-Jones Daily Index)				