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GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The State of the Union

In his recent "Report to the Nation" and elsewhere, the general tenor of President Eisenhower's State of the Union Message had been made fairly clear.

With reference to foreign policy, the Administration hopes to retain the initiative in foreign affairs and to strengthen the Nation's defenses and those of the "free world" against Communist aggression. Although details will be forthcoming in the budget message, presumably some cut is to be made in foreign economic aid.

Foreign trade continues to be handled gingerly. Extension of freer trade is to be encouraged but details are to be presented later.

The problem of wage or price controls apparently is a dead issue for the present at least; no mention of controls was made. The President proposed that aid be provided to greater numbers of unemployed.

There is every indication that the farmers' interests will continue to receive special consideration. However, continued building-up of surplus commodities will not be tolerated and freer commodity markets will be encouraged. The message on the farm problem to be presented January 11 probably will include more details.

Social-security coverage is to be broadened and efforts are to be made to decrease the amounts of Federal grants-in-aid to the States for welfare purposes.

Further decreases in Federal expenditures are to be made. However, the chances of balancing the budget in the immediate future remain remote. Some tax relief is hoped for but no further major changes are to be expected immediately.

The President reiterated his assurance of the Government's aim to prevent a boom-and-bust America. He had expressed this in his "Report to the Nation" as follows: "Every legitimate means available to the Federal Government that can be used to sustain * * * prosperity * * * is being used and will continue to be used as necessary. This Administration believes that we must not and need not tolerate a boom-and-bust America."

Again we believe it wise that the public be reminded of the limitations of the Government's depression antidotes.[1] As Dr. Burns, Chairman of the Council of Economic Advisers, has said, "But there are no adequate grounds, as yet, for believing that business cycles will soon disappear * * * or that deep but brief contractions such as occurred in 1920-21 and 1937-38 will never again take place."

Moreover, Dr. Stewart, another member of the Council, has said, "I should think no one would favor 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 would 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."[2]

Whatever may have been the hopes of many individuals who voted for Mr. Eisenhower in 1952, developments during the past year had long since revealed that an effort to reverse completely and ultimately discard all the policies of the New Deal would not be sponsored by the present Administration. Nevertheless, there are many indications that the headlong rush into socialism or something very much like it has been retarded, even reversed in some segments of the overall picture. If the Administration has not followed the counsels of perfection that old-fashioned liberals would offer, at least there apparently is to be a "breathing spell" during which the threat of inflation will be less and there may be an opportunity for more deliberate reconsideration of many policies.

Perhaps, from the viewpoint of practical politics, this is the best or even the only way in which a major change of direction can be effected in a republic, except during a severe crisis. If so, those who are impatient with the lack of forthright leadership in a direction opposite to that of the New Deal at least have the consolation that the "breathing spell" will give them a new opportunity to present their views under circumstances more propitious for calm reconsideration.

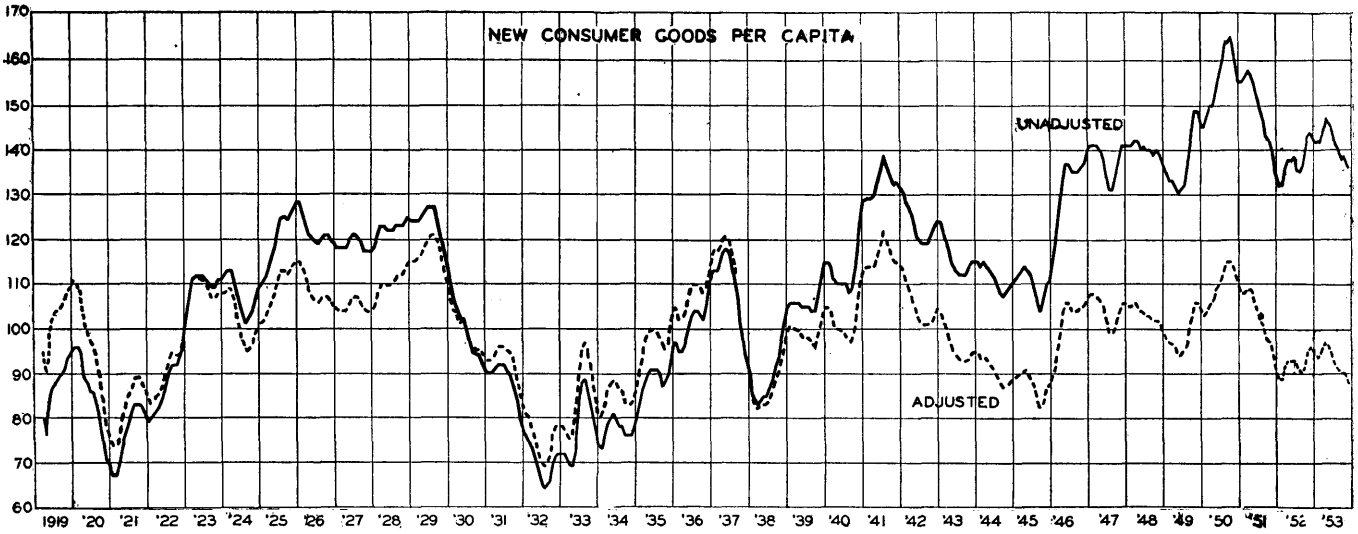
SUPPLY

Industrial Production

Steel-ingot production, scheduled at 75 percent of capacity for the week ended January 9, 1954, was 5 percent more than that in the preceding week but was 19 percent less than production in the corresponding week last year. According to The American Iron and

[1]See "Business-Cycle Research and the 'Master' Plan," *Research Reports*, June 15, 1953, and "Depression Antidotes," *Research Reports*, November 16, 1953.

[2]See "The Council of Economic Advisers," *Research Reports*, December 14, 1953.



Steel Institute, the industry's official capacity as of January 1, 1954, has been estimated at 124,330,410 tons yearly, or 2,384,549 tons weekly, 6 percent more than that previously reported.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Percent of Capacity†	84	25	80	26	98	75p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (Million Tons)	1.16	.38	1.21	.40	2.21	1.79

Automobile and truck production in the United States and Canada during the week ended January 2, 1954, was estimated at 91,135 vehicles, compared with a revised total of 92,247 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles (000 omitted)†	66*	19*	72*	50*	106*	91*p

Electric-power production in the week ended January 2, 1954, increased to 8,200,000,000 kilowatt-hours from 8,173,745,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-hours†	1.54*	1.52*	2.07*	2.03*	7.71*	8.20*

Lumber production in the week ended December 26, 1953, decreased. *The New York Times* seasonally adjusted index was 2 points below that for the preceding week and was 8 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	115*	30	77*	99	144*	136*

†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 decreased 2 percent during November to a level 7 percent below the 1953 high reached in May. The November index was 6 percent below that of the corresponding month a year earlier and was 18 percent below the alltime high reached in October 1950.

The index adjusted for long-term trend decreased 2 percent during November to a level 8 percent below the 1953 high reached in May. The November index was 8 percent below that of November 1952 and was the lowest since that of February 1946. The November index was 12 percent below the long-term trend line. The average of the index for 1952 was 8 percent below the long-term trend line, and the average for the first 11 months of 1953 was 7 percent below the long-term trend line.

Production of consumer goods, which increased 1 percent during October, decreased 5 percent during November. The decrease was attributable primarily to a 29-percent decrease in automobile production. The changes of all other components of the index were as follows: textile production decreased 4 percent; residential construction decreased 3 percent; furniture production decreased 1 percent; food production increased 1 percent.

Automobile production, which totaled 438,477 cars and trucks during November, increased to 522,000 units during December. The total production of cars and trucks during the year 1953 was 7,338,500 units, 8 percent less than the record production of 8,000,000 units during 1950 but more than that during any other year. Passenger-car production for the first quarter of 1954 has been scheduled at 1,700,000 cars, 13 percent more than production during the corresponding period of last year. In view of the fact that stocks of new cars held by dealers are unusually great (approximately 400,000 cars), we believe that the first-quarter production goal should be considered an upper limit, and we expect a somewhat lower final figure.

The November figure for residential-construction contract awards, which is a 3-month moving average, was 3 percent below that for October and was nearly equal to the average for the first 10 months of 1953. The number of new dwelling units started during November was 80,000, compared with 88,000 during October and 86,000 during November 1952. The total started during the first 11 months of 1953 was 1,031,000 units, compared with 1,055,000 units during the corresponding period of 1952. According to the *Survey of Current Business*, the value of new nonfarm residential construction put in place in 1953 is estimated at $11,700,000,000, 5 percent more than that during 1952 but 7 percent less than that during 1950, when an alltime record was made.

Production of textiles decreased 4 percent during November to a level 12 percent below that during the first quarter of 1953 and to the lowest level since July 1952.

In view of the relatively great automobile production scheduled for the first quarter of 1954, the recent downward trend of the index of new consumer goods per capita may be interrupted during the next few months; a leveling-off or even a slight increase of the index is probable. However, we expect new-consumer-goods production per capita during 1954 to be somewhat less than that during 1953.

DEMAND

Purchasing Media

Total purchasing media increased $2,400,000,000 during December to an alltime high of $130,500,000,000, nearly $1,800,000,000 more than the figure for December 1952.

During the last 7 years the total has increased during December, and the average gain has been $1,400,000,000. This year's December increase is $1,000,000,000 more than the average of previous years and approximately equal to that during 1951. The increase during the entire year of 1953 was substantially less than that during 1952.

Purchasing media derived from the first source (monetary gold) remained virtually unchanged during December. If the increase of $500,000,000 in gold certificates resulting from the recent transfer of gold from the general fund is disregarded, purchasing media derived from the first source have nearly leveled off since September 1952.

Commercial, industrial, and agricultural loans, the second source, increased $350,000,000 during December. The total increase in these loans during the second half of 1953 was $1,180,000,000, substantially less than that seasonally expected. During the second half of 1952 and 1951 the increase in these loans was $2,900,000,000 and $2,500,000,000 respectively, slightly more than was seasonally expected.

Partially responsible for the lower rate of expansion of commercial, industrial, and agricultural loans during the second half of 1953 was the decrease in such loans to sales finance companies (the decrease was $270,000,000 for reporting banks, but during the corresponding period of 1952 such loans increased by $400,000,000).

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, increased $2,050,000,000 during December to $72,800,000,000. The total was about $2,100,000,000 more than that at the end of December 1952. About $1,500,000,000 of this increase was derived from the fourth source, inflationary private credit, and about $600,000,000 from the fifth source, monetized public debt.

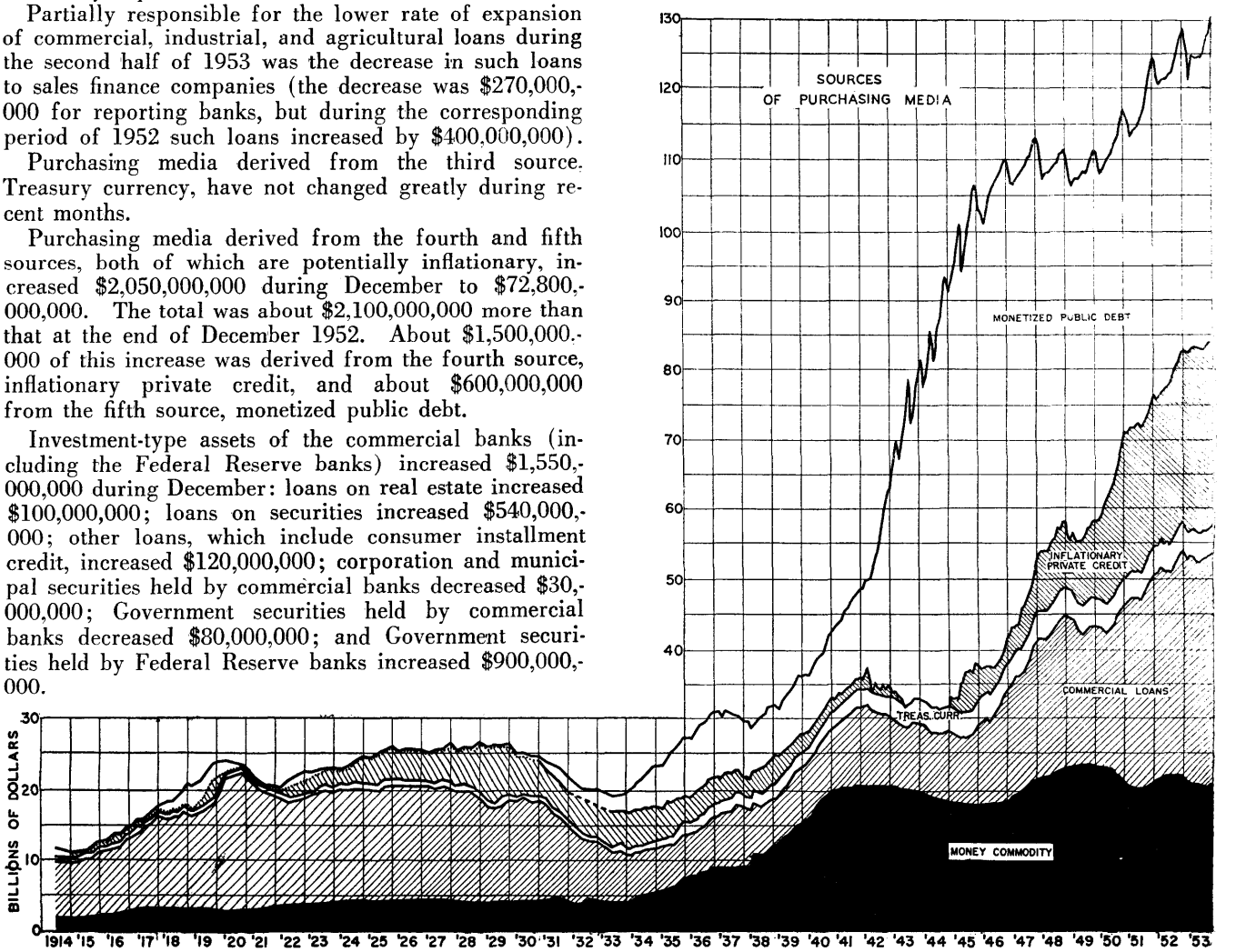
Investment-type assets of the commercial banks (including the Federal Reserve banks) increased $1,550,000,000 during December: loans on real estate increased $100,000,000; loans on securities increased $540,000,000; other loans, which include consumer installment credit, increased $120,000,000; corporation and municipal securities held by commercial banks decreased $30,000,000; Government securities held by commercial banks decreased $80,000,000; and Government securities held by Federal Reserve banks increased $900,000,000.

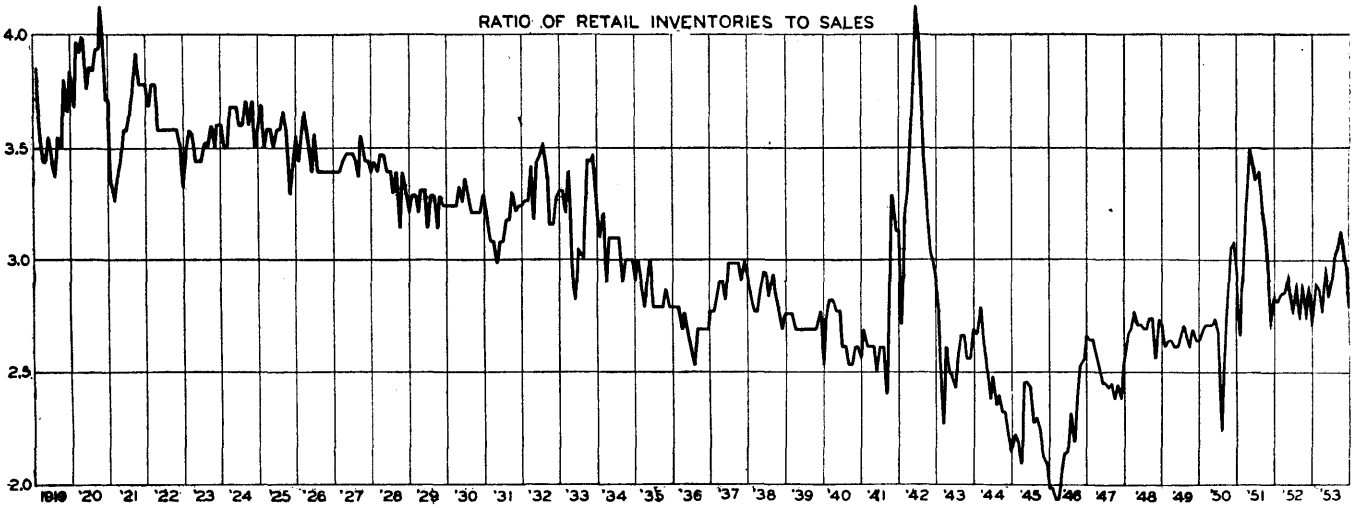
According to our estimates, inflationary purchasing media created by the extension of private credit during the last 3 years and those created by monetization of the public debt have been as follows:

June to June	*Increase in Infla. Private Credit*	*Increase in Monet. Public Debt*
1950-51	$5,813,000,000	—$5,806,000,000
1951-52	**1,504,000,000**	**1,207,000,000**
1952-53	4,080,000,000	— 2,413,000,000

Thus the extension of private inflationary credit was primarily responsible for the post-Korean inflationary boom. The fiscal operations of the Federal Government were deflationary and counterbalanced much of the privately sponsored inflation. During the second half of 1953 these trends were reversed. Virtually no inflationary purchasing media were created by the extension of private credit; monetization of the public debt resulted in the creation of $5,200,000,000 of inflationary purchasing media.

The purchasing-media total probably will decrease during January as a result of the return of currency to the banks and of a possible seasonal liquidation of some commercial, industrial, and agricultural loans. Some further decreases are to be expected during February and March, when personal and corporate income taxes are due. As we mentioned in last month's article, we expect the first-quarter decrease of purchasing media in 1954 to be somewhat less than that during 1953 (more





than $7,000,000,000) *but somewhat more than those of 1952 and 1951* ($4,000,000,000 *and* $3,400,000,000, *respectively*).

Department-Store Sales

Department-store sales for the week ended January 2, 1954, were 50 percent less than sales in the preceding week but were 1 percent more than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

	1953	*1953*	*1954*
(August 1939=100)	*Jan. 7*	*Dec. 31*	*Jan. 7*
Spot-Market Prices (22 basic raw materials)	279	271	273
Commodity Futures Prices (Dow-Jones Daily Index)	354	350	356

BUSINESS

Ratio of Retail Inventories to Sales

Our preliminary estimates indicate that the ratio of retail inventories to sales, which decreased 4 percent during November, decreased 4 percent further during December. The December ratio was 3 percent above that for December a year earlier, was about equal to the average for 1952, and was 5 percent below the average for 1953.

The ratio fluctuated erratically during the first half of 1953, turned upward in June, reached a 1953 high during September, and in the following 3 months turned sharply downward. The December ratio was the lowest since March 1953.

The seasonally adjusted index of department-store inventories, which decreased slightly during November, is estimated to have decreased 3 percent further during December. The seasonally adjusted index of department-store sales, which increased 3 percent during both October and November, increased 2 percent further during December. Consequently, the ratio, which is derived by dividing the inventory index by the sales index, decreased 4 percent during December. December inventories were 3 percent greater than those of December a year earlier and were 4 and 2 percent greater than the average level of inventories during the years 1952 and 1953, respectively.

The dollar value of new orders placed by department stores during November (later data are not available) was 16 percent less than that during October but was 9 percent more than that of November a year earlier. Although there has been no precise seasonal change in new orders from month to month during recent years, the decrease during November seems to have been somewhat larger than usual.

The dollar value of outstanding orders decreased 19 percent during November, compared with a decrease of 14 percent during the corresponding month a year earlier. Outstanding orders at the end of November were 16 percent less than those at the end of November 1952.

The dollar value of goods received by department stores during November decreased 4 percent, compared with a decrease of 8 percent during the corresponding month a year earlier.

Retailers continued to exercise caution in their placing of new orders during November. This fact, together with relatively large December sales, resulted in a further decrease of the ratio of retail inventories to sales. The December ratio was above that at the end of 1952, 1949, and 1948 but was below that of December 1951 and 1950. We suspect that retailers will attempt to continue to reduce their inventories. Of course, their success will depend on the trend of retail sales during the next few months. However, provided no abrupt contraction of general business activity occurs, we believe that a leveling-off or a further decrease of the ratio is more probable than an increase in the near future.

BOOK REVIEW

The Iron Curtain Over America by John Beaty
Wilkinson Publishing Company, Dallas, Texas ($3)

In spite of the author's religious views, which we believe have unduly influenced his work, there is much in this book that deserves the consideration of thoughtful citizens. In recommending it to our readers, we assume that their intellectual maturity would incline them to make appropriate allowances for the religious prejudice that seems evident and concentrate their attention on the significant facts reported. The author, who has a Ph. D. from Columbia and spent five years with the Military Intelligence Service during World War II, had unique opportunities to observe developments that have never become known to the general public.