

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *The Nation's Agriculture*

As we had suggested two months ago, "any proposed agricultural legislation may not be much different from that at present."<sup>1</sup> Consequently, we were not surprised by President Eisenhower's recent proposals, which seem to be designed primarily to fulfill his campaign promises of assuring the American farmer "support of existing agricultural laws, including continuance through 1954 of price supports on basic commodities at 90 percent of parity."

Among several issues discussed in the message, there are three in particular that we believe warrant specific mention here: first, the absence of any real attempt to relate the agricultural program to other aspects of the economy; second, the problem of "overproduction" versus "unbalanced" production; and, third, the economic aspects of "insulating" the market from surpluses.

As a guiding principle for solving the farm problem, the Administration's first "fundamental consideration" seems inadequate and misleading. It has been the basis for attempts to solve the problem as though the correct solution were already known. Believing that "a stable, prosperous, and free agriculture is essential to the welfare of the United States," the President concludes that the Nation "in the interest of all 160,000,000 of our people \* \* \* must assure \* \* \* the stability and growth in income over the years to which our farmers are entitled." Even if one grants the basic belief, no such conclusion as that of the Administration follows. Yet, apart from the single reference to "fairly represent interests of both producers and consumers," practically the entire program is devised to assure the farmer stability and prosperity on the apparent assumption that this undoubtedly is in the overall interest of the Nation. The welfare of the United States does not logically depend on agriculture any more than it logically depends on any other aspect of the economy. Any program that is based on assuring prosperity to the farmer regardless of the interrelationship of the farmer to the remainder of the economy rests on dubious grounds.

President Eisenhower suggests that the "agricultural problem is not one of general overproduction \* \* \* [but] \* \* \* rather one of unbalanced farm production." Yet, the President contradicts himself by indicating that decreasing acreage devoted to "surplus" crops will not

solve the problem. He states that better techniques and diversions to other crops by those for which the acreage is restricted will result in as difficult a situation as that at present. "Overproduction" of food at a particular time, place, and at a fixed price is not an illusion to be brushed aside by theoretical considerations concerning the impossibility of "overproduction." The market place apparently has been trying to tell us that during the last year or so we have had too many farmers and relatively too much production at the price floor fixed by the Government. Secretary of Agriculture Benson's being "stumped" at a news conference when asked if the Nation had too many farmers and his first reaction of "I don't know" is a revealing incident as to the wisdom of attempting to guarantee *all* farmers stability and prosperity.

According to the President, "destruction of surplus commodities cannot be countenanced under any circumstances," but at the same time "removal of the threat of huge surpluses of farm commodities from current markets is an essential part of the program." To the extent that basic foodstuffs are an integral part of a world market, we do not understand how such large surpluses can be used without affecting current markets at least indirectly. We also do not understand what the President is saying when he states that "the handicap of such large accumulated surpluses" is to be removed "by setting aside certain quantities of our surplus commodities, [thus] eliminating them from price support computations." Are we to pretend that these commodities do not exist; and, if so, how does this in any way affect price supports?

*As economists, we should have preferred seven columns devoted to "fundamental considerations" and one column to details instead of the other way around. However, the program contained in the message was clearly an attempt to fulfill campaign promises, not to discuss the economic validity of the principles on which the contemplated proposals presumably are based.*

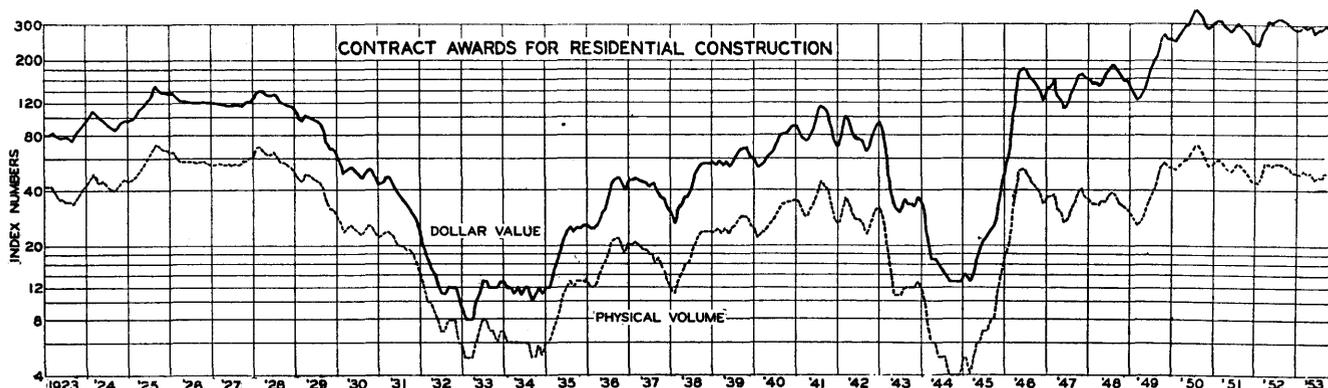
*We continue to believe that devising of programs to placate one particular group after another without adequate consideration of the interrelations of these groups in the economy will simply result in the accumulation of more and more complex problems to be solved.*

#### **Eisenhower's Labor Message**

The text of the President's message on labor was relatively short and contained relatively little of major significance.

A few suggestions that seemed to be of value included

<sup>1</sup>"The Farm-Support Program," *Research Reports*, November 9, 1953.



the following: a more strict honoring of labor-management contracts, actual recommendations to be made by fact-finding boards of inquiry, and secret balloting under Government auspices by employees on any decision to strike.

No changes in the basic procedure for handling strikes involving the national health and security were suggested. Thus the only means for restricting the power of labor unions is for the courts to postpone their right to strike for a protracted period and hope that public and possibly Government opinion will be strong enough to prompt a settlement. No additional legal action was requested by the President for dealing with situations in which either party refuses to settle after all the prescribed means have been exhausted.

## SUPPLY

### Industrial Production

Steel-ingot production, scheduled at 75 percent of capacity for the week ended January 16, 1954, was slightly less than that in the preceding week and was 20 percent less than production in the corresponding week last year.

	1929	1932	1937	1938	1953	1954
Percent of Capacity†	83	26	79	29	99	75p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (Million Tons)	1.15	.40	1.19	.45	2.23	1.78

Automobile and truck production in the United States and Canada during the week ended January 9, 1954, was estimated at 154,129 vehicles, compared with a revised total of 93,293 vehicles during the previous week.

	1929	1932	1937	1938	1953	1954
Vehicles (000 omitted)†	96	31	96	54	140	154p

Electric-power production in the week ended January 9, 1954, increased to 8,824,801,000 kilowatt-hours from 8,198,112,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1953	1954
Billion Kilowatt-Hours†	1.73	1.62	2.28	2.14	8.21	8.82

Lumber production in the week ended January 2, 1954, decreased. *The New York Times* seasonally adjusted index was 13 points below that for the preceding week but was 5 points above that for the corresponding week last year.

	1929	1932	1937	1938	1953	1954
<i>The New York Times</i> Index†	132*	42*	96*	72*	118*	123*

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

### Residential Construction

According to preliminary estimates, the index of residential-construction contract awards, which decreased 3 percent during November, decreased 3 percent further during December. The December figure was 3 percent below that of the corresponding month a year earlier and was 23 percent below the post-World War II peak

reached in July 1950. Fluctuations of the index during 1953 were relatively slight; the average level was approximately 3 percent below that of 1952.

The *Engineering News-Record* index of construction costs, which was an alltime high in November, decreased slightly during December. The December figure was 4 percent above that of December 1952 and was 19 percent above the figure for June 1950, when the Korean War started.

Our physical-volume index of residential construction (which is derived by dividing the index of the dollar value of residential construction by the index of construction costs) decreased 4 percent during November and 2 percent further during December. The December index was 6 percent below that of December a year earlier; the average level during the year 1953 was approximately 6 percent below that of 1952.

The number of new dwelling units started during November was 80,000, compared with 88,000 units started during October. According to our estimate, the total number of new dwelling units started during the entire year 1953 will be nearly 1,100,000, compared with 1,127,000 units started during 1952, 1,030,500 units started in 1951, and 1,396,000 units started during 1950, when an alltime record was established.

The outlook for 1954 construction seems less favorable than that during 1953. Estimates differ widely, ranging from as many starts as those during 1953 to well below the million mark. However, most of the estimates we have seen indicate that annual housing starts are expected to decrease below 1,000,000 units. The McGraw-Hill Economics Department, for example, expects about 925,000 starts (private and public) during the current year. According to the McGraw-Hill economists, the following factors may keep the number started below a million units: a decrease or a leveling-off in consumer income; a decrease in the formation of new families (the census estimates that by the second half of the 1950's there may be only 650,000 new families each year, compared with 750,000 to 800,000 currently); a slowdown in migration from rural areas to cities and from cities to suburbs; difficulties in resale of existing homes; and a decrease in public housing.

The mortgage market has showed signs of easing recently. There has been some lowering of interest rates, according to Charles B. Shattuck, president of the National Association of Real Estate Boards.

*There are few indications that the downward trend of residential construction will be reversed in the near future. On the contrary, the increased probability that a cyclical recession began some months ago suggests that some further decrease is probable.*

## DEMAND

### Department-Store Sales

Department-store sales for the week ended January 9, 1954, were 17 percent more than sales in the preceding week and were 7 percent more than sales in the corresponding week last year.

## PRICES

### Commodities at Wholesale

	1953		1954
(August 1939=100)	Jan. 14	Jan. 7	Jan. 13
Spot-Market Prices (22 basic raw materials)	276	274	272
Commodity Futures Prices (Dow-Jones Daily Index)	350	356	361

## BUSINESS

### Manufacturers' Orders, Sales, and Inventories<sup>2</sup>

The seasonally adjusted dollar value of manufacturers' new orders, which was unchanged during September and October, decreased 2 percent during November to \$21,800,000,000. The November figure was 16 percent below the 1953 high reached during April, May, and June, and was 7 percent below the figure for the corresponding month a year earlier. The November level of manufacturers' new orders was within 2 percent of the lowest level since the Korean War began. (In September 1951 new orders were \$21,400,000,000.)

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 November at a level 16 percent below that of a year earlier. This series has decreased 26 percent since the 1953 high reached in May. The seasonally adjusted dollar value of new orders for nondurable goods decreased nearly 4 percent during November to a level slightly below that of a year earlier.

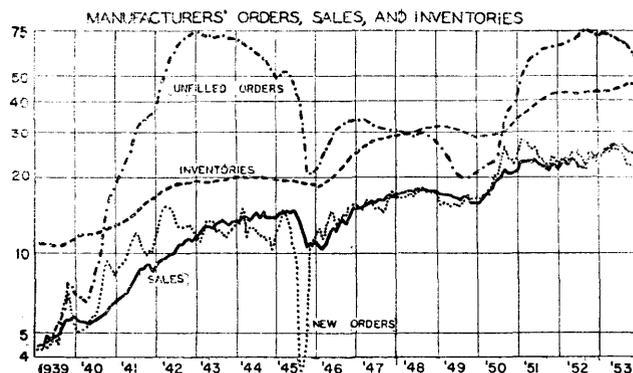
The seasonally adjusted dollar value of manufacturers' sales, which remained the same during October, decreased nearly 2 percent during November to \$24,600,000,000. The November figure was 7 percent below that of April 1953, when the 1953 high was reached. The November decrease occurred primarily in sales of durable goods.

Unfilled orders (this series is not adjusted for seasonal variations), which have been decreasing since February 1953, decreased 5 percent further during November. The November figure was 22 percent below the alltime high reached in September 1952. Nearly all of the November decrease was attributable to the durable-goods industries.

The seasonally adjusted dollar value of manufacturers' inventories, which in October decreased for the first time since July 1952, decreased further in November, but the recent decreases were relatively slight.

The ratio of manufacturers' inventories to sales, which remained virtually unchanged during October, increased 4 percent during November to a level 4 percent

<sup>2</sup>Although the Department of Commerce published revisions of the series of sales and orders in the December issue of the *Survey of Current Business*, revisions of manufacturers' inventories are not to be published until the January issue. As soon as the revised series of inventories is available, we shall revise the accompanying chart.



above that of a year earlier. The November figure was 5 percent below that of December 1951, when an alltime high was reached; but it exceeded by 2 percent that of July 1949, when the ratio reached a peak prior to the 1949 recession.

*Developments during November strengthen our belief that a downturn in manufacturing activity is under way. We expect some further curtailment during the next few months at least.*

## FINANCE

### Gold Production and Commodity Prices

According to preliminary estimates, world production of gold (including an estimate of Russian output) decreased 1 percent during 1953. Primarily responsible for this decrease in gold production was a 4-percent curtailment by Canadian gold producers. Thus the upward trend of gold production that started in 1946 and continued through 1952 has been interrupted, at least temporarily. The rate of increase of world gold production (including Russia) during 1946-52 was 4 percent annually, compared with the annual rate of increase of the long-term trend of 2½ percent.

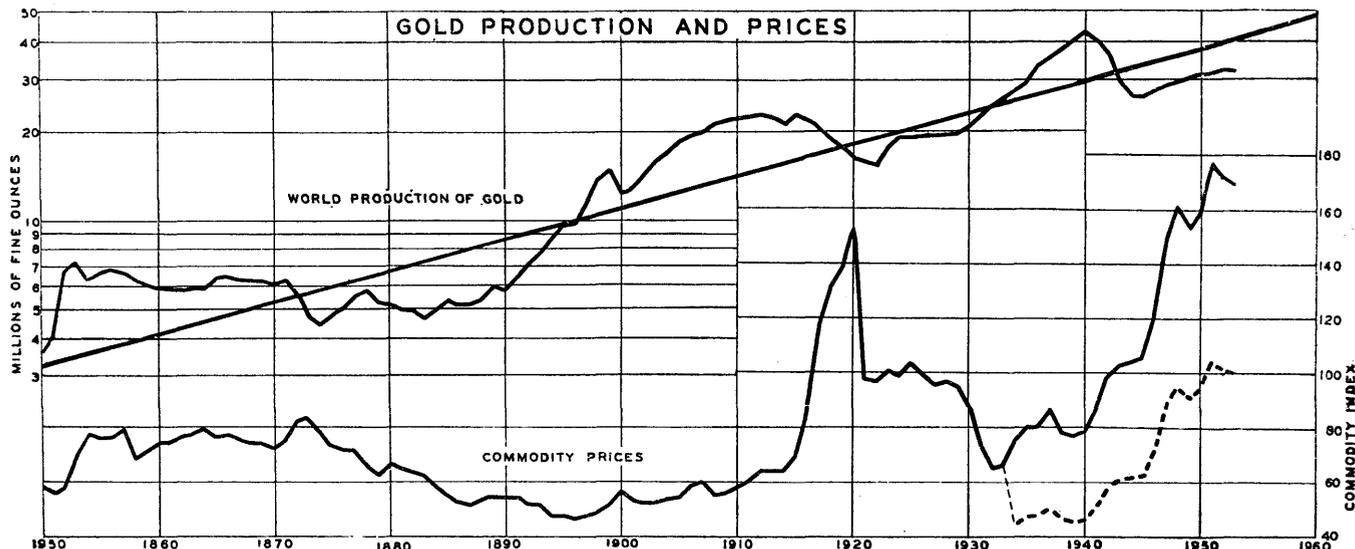
The trend of gold production excluding that of Russia has been somewhat different.<sup>3</sup> From 1946 through 1950 non-Russian production increased at an annual rate of about 3 percent (somewhat greater than the rate of the long-term trend); production during 1951 decreased 2 percent; but in 1952 the upward trend was resumed at a rate of nearly 3 percent a year. In 1953 the trend was reversed once again. We suspect that this latest interruption may be temporary.

The index of United States wholesale commodity prices, which is plotted on the accompanying chart, decreased 1 percent during 1953. The decrease during 1952 was 3 percent. Thus, from 1951 through 1953 the wholesale-commodity-price index in the United States decreased 4 percent.<sup>4</sup> Commodity prices in the major gold-producing countries leveled off or decreased somewhat during 1953.

As readers may recall, lower commodity prices tend to encourage gold production; and, conversely, higher

<sup>3</sup>Production data for Russia are estimates of the United States Bureau of Mines. According to these estimates, Russian gold production remained unchanged during 1947-49, but increased 14 percent during 1950 and 19 percent during 1951. No estimates have been published as yet for 1952 and 1953. In our world estimates for 1952 and 1953 we assume that Russian gold production varied at the same rate as that of the Free World.

<sup>4</sup>Unfortunately, a reliable index of world commodity prices is not available. Prices plotted on the chart represent wholesale commodity prices in the United Kingdom prior to 1914 and those in the United States thereafter.



commodity prices tend to discourage gold production. This relationship arises from the fact that the monetary equivalent of the final product of the gold-mining industry, the gold commodity, is fixed by some governments; the costs of gold production, as reflected in commodity prices, vary. The relationship is a long-term one and year-to-year movements cannot be expected to reflect the relationship precisely. Moreover, the trend of free-market gold prices apparently affected gold production during recent years.

During the early post-World War II period, free-market prices of gold were substantially above the official U. S. price of \$35 per ounce. Gold miners, especially those in South Africa, officially were permitted to sell a substantial portion of their gold production at premium prices in the free world markets. Thus, because for several reasons gold commanded premium prices, gold production was stimulated in spite of rapidly increasing commodity prices.

As the world political and economic situation stabilized somewhat during 1953, and fears of war, inflation, and economic disorder gradually diminished, many gold hoarders in Europe and Asia apparently found hoarding gold less desirable. Premium prices for gold in the free markets of Europe and Asia decreased substantially and by November 1953 had disappeared entirely in some European gold markets. With the incentive of premium prices gone, gold production was discouraged in some countries.

In view of the fact that the free-market prices of gold are at present nearly equal to the official price of \$35 per ounce, the effect on gold production of changes in commodity prices and production costs may become greater.

In spite of the fact that developments in the world's free gold markets suggest that gold hoarding may have become less popular and that a relatively smaller portion of new gold production will be diverted to hoards in the near future, changes in monetary gold stocks do not confirm these suppositions. According to data published by the International Monetary Fund (in the January issue of *International Financial Statistics*, pages 14-15), the gold holdings of international institutions, central banks, treasuries, and other governmental institutions, excluding those in Russia, China, and satellites, increased only about \$100,000,000 during the first 9 months of 1953, compared with an estimated increase

of approximately \$250,000,000 during the corresponding period of 1952. Because gold production decreased only slightly, approximately \$150,000,000 more gold was available for hoarding or productive uses during 1953 than was available during 1952. Major changes in the use of gold for production purposes from year to year are believed to be small. Thus, these figures suggest that hoarding may have increased somewhat during 1953.<sup>5</sup>

Estimates as to what portion of the 1953 gold production has gone into hoards and what portion has been sold to banks and governments differ. For example, British sources, such as *The Economist*, *The Times*, and *The Manchester Guardian* (see *International Financial News Survey*, December 11, 1953), suggest that about 50 percent of the year's production presumably was sold in the free markets; on the other hand, *Barron's* (January 11, 1954) estimates that about \$600,000,000, or 70 percent, of the year's gold production found its way into official monetary reserves.

Although its significance is not yet apparent, the fact that the Soviet Union has started to sell gold in relatively large quantities and at official prices to Western European treasuries is of interest. The amount thus far sold is estimated to have been in excess of \$100,000,000; goods purchased are reported to have been consumer durable and nondurable goods including some types of machinery.

*Additions to monetary reserves during the last 4 years have been approximately \$350,000,000 annually. We expect that lower premium prices for gold may result in a larger portion of newly mined gold finding its way into official non-Russian monetary reserves during 1954 than that during the preceding year. However, we doubt that the increase in official gold reserves will exceed \$1,000,000,000 as suggested by Barron's (\$600,000,000 newly mined gold, \$200,000,000-\$400,000,000 from Russian gold sales, and \$200,000,000 from dishoarding).*

*Although we do not believe that a recovery of gold production to the long-term trend line is probable in the near future, we expect some increase in gold production during 1954 as a result of an expected worldwide downward trend of prices during the coming year.*

<sup>5</sup>Data for world gold production and world monetary holdings are subject to large margins of error. Readers should realize that conclusions based on these data must remain highly questionable, at least until better data become available.