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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Economic Report of the President

The first economic report by a Republican President since passage of the Full Employment Act of 1946 had been eagerly awaited by many individuals. Moreover, the appointment to the Council of Economic Advisers of such men as Arthur F. Burns, Neil Jacoby, and Walter Stewart had aroused speculation about the possible contrasts between this report and those influenced by the previous more-or-less "New Deal" Councils. Those who were hoping for a complete reversal of the recent trend away from individual freedom will be somewhat disappointed in the role anticipated for Government by the new Administration. Nevertheless, there seems to be a regaining of perspective that bodes well for those who have been disturbed by the growing centralization of power in the Federal Government.

Similarities to Previous Reports

This new perspective is not reflected so much in the things said by President Eisenhower as in his emphasis and in his way of looking at the Nation's problems. Many of the statements made by Mr. Eisenhower closely resemble those made by Mr. Truman in his last report.

For example, on competition, President Eisenhower says, "Competition must be allowed to perform its traditional role of regulator and energizer, to direct our economic resources into those lines which most accurately meet the needs or tastes of consumers. This role of competitive markets is as basic to the proper functioning of our economic order as the secret ballot is to our political democracy." Mr. Truman had said, "Finally, there is the fundamental problem of reconciling the effective operation of an economy of large groups with the maintenance of effective competition. For competition is the shield of the often inarticulate consumer; and by opening doors to new ideas, new enterprises, and new successes, it is a prime source of economic progress."

On free enterprise, President Eisenhower says, "Traditionally, our Government has sought to create and maintain a democracy of opportunity in which individuals have the general freedom and the specific opportunities to work, to spend, to save, and to invest, and the incentive to pursue these opportunities to the fullest extent." Mr. Truman had said, "Under the Employment Act, full employment means more than jobs. It means utilization of our natural resources, our technology and science, our farms and factories, our business brains, and our labor skills. * * * In the broadest sense, full employment means maximum opportunity under the American system of responsible freedom."

On the general role of Government in the economy and specifically with reference to depressions, President Eisenhower says, "Under a competitive enterprise system, * * * the economy cannot, of course, be absolutely stable. * * * Even when the economy as a whole advances, some industries go ahead more rapidly than others, and some may decline. The practical importance of this fact for public policy is that it indicates a need for fluidity and resilience in the economic system. * * * it is essential to economic progress that individual prices be flexible, so that resources may be shifted from uses in which rewards of labor, management, and capital are low to uses in which the rewards are high. Industries benefiting from advances in technology or shifts in demand will offer expanding opportunities for employment, while others that have lost favor with the public will provide fewer jobs. The proper role of Government is not to resist adjustment to change, but rather to foster conditions under which adjustment can be accomplished with a minimum of hardship or difficulty. * * * Unless the Government is prepared and willing to use its vast powers to help maintain employment and purchasing power, even a minor readjustment may be converted into a spiralling contraction." Mr. Truman had said, "This does not mean that we know enough to avoid economic fluctuations completely, or that we would want to even if we could. In a dynamic, free economy, the consumer is sovereign. * * * In response to anticipated or actual changes, the economy is marked by a ceaseless shifting of resources from areas of lesser to areas of greater demand; existing industries are growing or contracting; new industries and products make their appearance, requiring new skills; prices and employment are being accommodated to the ebb and flow of demand; investment decisions are adjusted to changing conditions. This process requires the flexibility which is so characteristic of our economy. * * * But while some economic fluctuations may remain necessary or even desirable, it does not follow that we should not try our best to maintain full employment, or that we should wait until small recessions begin to spiral before seeking to reverse their course or to prevent them from growing into large depressions."

However, in spite of the similarities, major differences of approach, attitude, and philosophy seem to be reflected in the most recent report.

Differences from Previous Reports

Probably the outstanding difference, compared with previous reports, is the emphasis on individual freedom and incentive as fundamental in the sense that the contemplated program seems to have been conceived, thought through, and proposed with individual freedom as a basic (albeit not a sole) consideration. In the past, the economic reports have seemed to assume or take for granted the role of individual freedom.

In Mr. Truman's 1953 report his "Basic Economic Principles for the Future" are all conceived and discussed in terms of "Full Employment."[1] The first principle was that "full employment must be a constant objective of policy." The following six principles related "full employment" to various other aspects of economic life, but in *every* principle "full employment" was the basic and underlying consideration. "Full employment" was considered almost as if it were an objective in and of itself. Mr. Truman spoke of "our dedication to full employment" and that "like freedom, it [full employment] needs to be guarded zealously and translated into action on a continuing basis. Moreover, if we fail in this, our very freedom may be placed in jeopardy." The ways in which preoccupation with "full employment" might itself jeopardize freedom seemed hardly to have been seriously considered.

Mr. Eisenhower's approach is substantially different. He offers no basic principle as such but discusses "Conditions of Progress." He recognizes that "progress can be nurtured by wise public policy, just as it can be impeded by careless or shortsighted policy. Above all things, public policy should recognize that the atmosphere in which people pursue their productive activities is as important to progress as the physical resources that they employ."

The conditions enumerated by President Eisenhower include (1) Individual freedom, (2) Adequate incentives, (3) Effective competition, (4) Savings and capital formation, (5) Research and development, (6) Maintenance of economic stability, (7) Floor of individual security, and (8) World community of free nations. It is not that these subjects were ignored by Mr. Truman. Many of them not only were discussed by him but in many respects were discussed in a similar manner. When discussed, however, it was in relation to the limited objective of "full employment," not in relation to the broader objective of "economic progress."[2]

We believe that it is this wider perspective on the part of President Eisenhower that makes his ideas of "The Tasks Ahead" so different from "The Promise Ahead" of Mr. Truman. The latter saw the future in terms of the challenge of growth and improvement "in production, in living standards, in correction of inequities, and in stable and more satisfying jobs." These are not undesirable goals, but just as with "full employment" they are goals, not plans for action. President Eisenhower also wants to "protect the stability of the purchasing power of money, to help maintain employment at a high level, and to help provide a floor for the individual." But he sees fit to specify as part of the tasks ahead that "the Government must foster competitive enterprise, strengthen economic incentives, and promote scientific and technological knowledge."

Signs of Economic Judgment

There are several signs in the report of what we believe to be sound economic judgment. For example, the report says, "It is also important to recognize the broad teaching of history that, in the course of a protracted economic expansion in which monetary inflation has played a large role, some distorting speculative movements and some misallocations of resources are bound to develop."[3]

Moreover, there is implicit recognition of the limitations of present-day economics. "As we turn from 1953 to the current year, we must first of all recognize the limitations of attempts at prevision. Despite the great improvement of statistical knowledge, it is impossible to deduce the future from statistics of the present, or to infer it from records of the past. Only those who adhere to a mechanistic view of history and of human behavior, or who are enamored of forecasting formulae, can entertain such illusions. The best we can hope for is to minimize errors of miscalculation through making full use of available data, and to give due recognition to those elements of uncertainty that attach to both the present and the future."

Finally, the report indicates a realization of the fact that the Government cannot guarantee prosperity. According to Mr. Eisenhower, "The recommended program is sound. It is designed to meet the needs of the current situation, to strengthen the basic expansive forces of individual enterprise, and to protect economic stability. But no one, however learned or wise, can predict with certainty the precise strength or influence of a particular governmental program."

There is no evidence of any such attitude as that expressed during 1928 by Governor Brewster of Maine at a Conference of Governors of the Various States (supposedly at the request of President-elect Hoover) with reference to the new-construction panacea. Mr. Brewster said, "Picture the approach of an economic crisis with unemployment threatening on every hand. The release of $3,000,000,000 in construction contracts by public and quasi-public authorities would remedy or ameliorate the situation in the twinkling of an eye." Although Mr. Eisenhower also advocates preparation of plans for new construction, he offers a much less optimistic outline of the results to be expected.

Conclusions

As free land in the West has become less easily accessible and a more complex and intricate industrial economy has evolved, problems such as unemployment and individual security have loomed larger and larger on the economic scene. The Federal Government in its attempt to deal with these problems directly has been injecting itself to an increasing extent into the everyday

[1]See "Full Employment as the Dominating Objective of Policy" in the article "Mr. Truman's Economic Report," *Research Reports* February 2, 1953.

[2]If "economic progress" seems somewhat less precise than "full employment" and thus less useful as a guide to policymakers, we remind readers that concentrating attention on a specific problem such as "full employment" tends to deter inquiry into the basic economic problems of the Nation. Alleviating a symptom of some deep-seated disease by no means effects a cure.

[3]In this connection, however, we are not sure what the report means when it later asserts, "The fact, however, that the index of consumer prices rose very little during 1953 is an indication that most of the earlier inflationary fuel has already burnt itself out."

economic life of its citizens. As long as the problem of the moment was prevention of the disaster of the 1930's, there was little realization of the danger that in pursuing the antidepression goal other goals might be neglected, that the underlying basis of economic progress in a competitive enterprise system might be destroyed.

There are indications in President Eisenhower's report that the problem of unemployment and depression is being considered in a perspective that includes recognition of the consequences of recent methods of choosing panaceas for these problems. If so, we may be entering a new phase of American economic life. It will not be a turning-back to the extent of ignoring the problems of individual security. On the contrary, those problems apparently will be accepted widely as worthy of the Federal Government's concern. They will be dealt with, however, as part of a larger problem of economic progress, not as goals in and of themselves.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 73.9 percent of capacity for the week ended February 6, 1954, was 2 percent 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†	86	27	80	31	98	74p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (Million Tons)	1.19	.41	1.21	.48	2.20	1.76

Automobile and truck production in the United States and Canada during the week ended January 30, 1954, was estimated at 146,891 vehicles, compared with a revised total of 146,868 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles (000 omitted)†	109	29	74	60	150	147p

Electric-power production in the week ended January 30, 1954, decreased to 8,855,000,000 kilowatt-hours from 8,976,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-Hours†	1.73	1.59	2.24	2.14	8.15	8.86

Lumber production in the week ended January 23, 1954, decreased. *The New York Times* seasonally adjusted index was 9 points below that for the preceding week and was 16 points below that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
The New York Times Index†	144	39	87	79	138	122

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

DEMAND

Purchasing Media

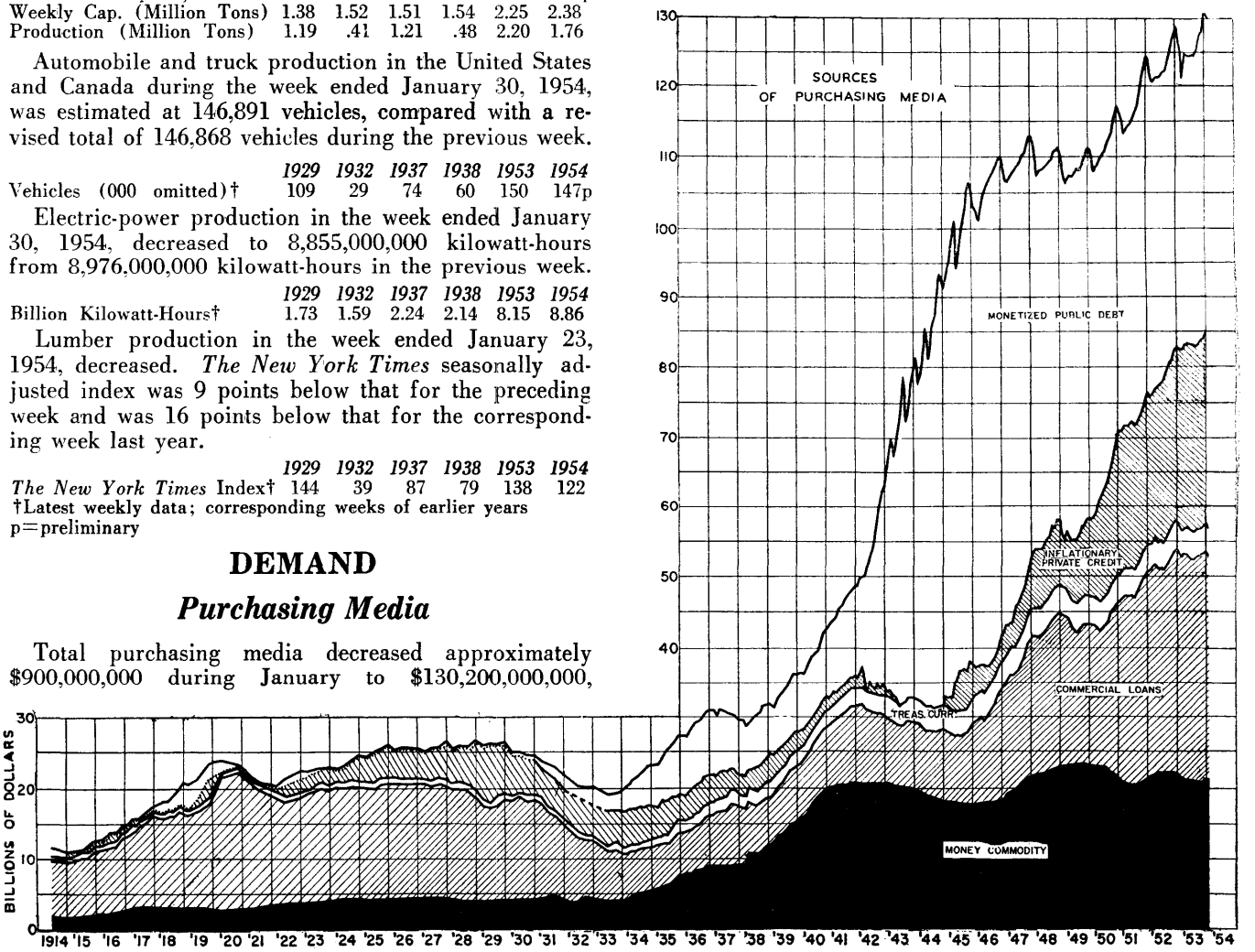
Total purchasing media decreased approximately $900,000,000 during January to $130,200,000,000, nearly $3,000,000,000 more than the figure for January 1953. During the last eight postwar years the total has decreased during January, and the average decline has been $1,400,000,000.

Purchasing media derived from the first source (monetary gold) decreased slightly during January.

Commercial, industrial, and agricultural loans, the second source, decreased about $1,200,000,000 during January. This decrease was substantially more than the seasonally expected January decrease of about $350,000,000. Apparently extensive liquidation of excessive inventories occurred during the month.

As readers may recall, the decrease of commercial, industrial, and agricultural loans during the period of January-June 1953 was only $700,000,000, substantially less than the seasonally expected decrease of $3,000,000,000. That development apparently was attributable to the fact that businessmen were accumulating inventories in anticipation of higher prices or greater demand. Presumably these actions contributed greatly to the intensity of the 1952-53 boom. With the boom reaching its peak during the third quarter of 1953, businessmen were faced with excessive inventories in relation to sales and were forced to liquidate. Thus the usual seasonal expansion of commercial, industrial, and agricultural loans during the second half of 1953 did not occur. We expect inventory liquidation to continue for some time.

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 $350,000,000 during January to a level about $3,400,000,000 higher than that in January 1953.

Several days ago the Treasury announced the largest single exchange operation in its history. As a result of combining several exchange operations into one, the amount involved will reach $20,700,000,000.

We now believe that the decrease in purchasing media during the first quarter may equal the $7,500,000,000 *decrease during the first quarter of 1953.* (*Our estimates range from* $5,000,000,000 *to* $8,500,000,000.)[4]

TABLE OF PURCHASING MEDIA
(in millions of dollars)

	1953 Jan.	1953 Nov.	1953 Dec.	1954 Jan.
1. Gold certificates	$ 21,790	$ 21,384	$ 21,384	$ 21,355p
2. Comm., ind., agri. loans	31,287	31,925	32,275	31,053p
3. Treasury currency	3,907	4,060	4,060	4,060p
4. Infla. private credit	25,549	26,508	27,247	NA
5. Monetized public debt	44,767	44,134	46,134	NA
Total	$127,300	$128,011	$131,100	$130,200p
Noninflat. purchasing media	$ 54,273	$ 53,952	$ 54,303	$ 53,058p
Inflat. purchasing media	73,027	74,059	76,797	77,142p
Total	$127,300	$128,011	$131,100	$130,200p

Department-Store Sales

Our preliminary estimate of the seasonally adjusted index of department-store sales (based on dollar value) decreased 1 percent during January. (Revised data reveal that a 1-percent decrease occurred during December.) The estimated January figure is equal to that for January last year.

The index of prices of goods sold in department stores decreased slightly during December. The December figure was about 1 percent higher than that for December 1952. These prices have been relatively unchanged for the past 2 years.

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 about 1 percent during December. The average level of the physical volume of sales during 1953 was 3 percent greater than that during 1952.

The potential volume of department-store sales (which is based on the production of goods ordinarily sold in department stores) decreased about 3 percent during November.[5] Since June 1953 the potential volume of department-store sales has decreased steadily, apparently reflecting the decreased ordering of goods by retailers. The November figure was more than 10 percent less than that for June 1953.

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, if the seasonally adjusted index of sales for February is to be maintained at the January level, the weekly sales figures for February 1954 should average about 1 percent less than the corresponding weekly sales figures for February 1953.

We suspect that retailers in general are somewhat overoptimistic concerning sales in the first half of 1954. In view of the fact that a cyclical recession apparently is under way, we believe that further decreases or a leveling-off of department-store sales during the next several months are probable.

Latest Weekly Data

Department-store sales for the week ended January 30, 1954, were unchanged from sales in the previous week but were 1 percent less than sales in the corresponding week last year.

PRICES

Commodities at Wholesale

(August 1939=100)	1953 Feb. 4	1954 Jan. 28	1954 Feb. 4
Spot-Market Prices (22 basic raw materials)	269	269	270
Commodity Future Prices (Dow-Jones Daily Index)	348	356	356

[4]In making these estimates we assume that commercial. industrial, and agricultural loans will continue downward through the first quarter, and that corporations will turn in about $1,000,000,000 of tax-savings notes in lieu of corporate income-tax payments.

[5]"We have revised the potential volume of department-store sales from January 1947 to date on the basis of the Federal Reserve Board's revised Index of Industrial Production published in the December 1953 issue of the *Federal Reserve Bulletin*. The level of the revised series is about 5 percent higher than the old. Primarily responsible for the higher level was the inclusion of data for apparel production in the overall textile index. Previously, according to the Board, "output of apparel was assumed to move with output of textile yarns and fabrics."

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