AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

It Could Be

Back in the days of the Great Depression, the notion that economic growth in the United States had virtually ended was widely accepted. Prominent economists in academic and Government circles wrote learned treatises explaining why further marked industrial expansion such as that of the preceding two centuries could no longer be expected.

In a Special Bulletin[1] issued 15 years ago, we discussed the prospects for recovery from the depressed levels of business then prevailing. Our viewpoint differed greatly from that of the stagnation theorists in that we explained the prolongation of the Great Depression as a result of unwise economic policies the effect of which had been to suppress and retard recovery. We believed then and still believe that "with the impersonal laws that govern in the field of economics (and presumably are valid and unchangeable, in spite of our failure to understand them in their entirety), intentions have very little influence. What counts is the action taken, or the action that businessmen and others expect will be taken.

"It is interesting to note that the action appropriate for a government that wished to prolong a depression and prevent a normal business recovery is in many respects similar to the action taken in the United States from 1934 on, until early 1937; and that part of the program, at least, was again undertaken in 1938, apparently with the object of continuing it for some time thereafter. This does not imply, as might at first be thought, any accusation that the New Deal failed to reveal its true objectives; on the contrary, it merely shows how a too ready acceptance of economic nostrums can lead to action that must seriously harm the patient. It is the old story that illustrates the wisdom of the doctor who, when he really does not know what to do, lets nature take its course except for such alleviation of suffering as may be within his power.

"The situation also illustrates the danger of treating symptoms, rather than attempting to deal with underlying causes. It is always important to remember that, no matter how alarming the symptoms may be, no matter how desirable it may seem to alleviate the pain that is one of the symptoms, care should be taken that, in relieving distress, the fundamental maladjustments responsible for the distress in the first place are not made worse."[2]

In short, we have long been convinced that the growth of the American economy has only begun. We can see no fundamental reason of critical importance that should be expected to alter greatly the general trend of industrial growth experienced since the Civil War. The great upsurge in population during the past decade is, in our view, only another factor tending to confirm expectations already firmly held.

Some Major Difficulties

In recording the optimistic views mentioned above, we are not overlooking the fact that the Nation is confronted with major problems for which adequate solutions have not yet been found, or at least have not been adopted. Certain of these problems have been discussed at length in another Institute publication.[3] However, there also are other problems, in addition to the national-defense aspects of coping with the communistic counterrevolution in Western Civilization.

Perhaps the most important problem confronting the Nation is that resulting from inequality of opportunity attributable to special privileges for some and the effective disinheritance of others. Fortunately, the rapid technological advance is providing new frontiers for industry similar in their leavening effects to the easy availability of free land during the first century of the Nation's existence.

We in the United States never experienced to a marked degree the degrading and deteriorating influences that were the lot of the underprivileged in Europe, for example, in the England of Dickens' time. Our free land in the West was a far more effective ameliorating influence than were the more distant areas of Canada and Australia for the English masses. Effectively disinherited by the successive Enclosure Acts and forced into the cities as a resourceless proletariat, England's sons of sturdy yeomen became willing converts to socialism, one aspect of the counterrevolution within Western Civilization. That we may be faced with pressing problems of this nature in the more distant future seems probable; but, for the time being, the new frontiers opened by the scientific advance are postponing for us the need to grapple with that problem.

[1]E. C. Harwood, *What Next! Stagnation or Recovery*, March 1939.

[2]Ibid., p. 2.

[3]*The Counterrevolution, American Foreign and Domestic Policy and Economic Aspects of National Defense.*

Perhaps the most pressing problem confronting the United States today is that of getting its money-credit affairs in order. The Nation is well along on the path that France has followed for four decades. The subtle deteriorating effects of prolonged inflation and gradual depreciation of a nation's monetary unit become striking only when viewed in the perspective of decades rather than years. There is no reason to hope that the economy of the United States will be more immune than that of France to the slow poison of unsound fiscal and banking policies.

When the Federal Reserve System was formed in 1914, there was clear evidence in the congressional debates and elsewhere that the basic principles of sound commercial banking were recognized. A century of experience in England with the gold standard and sound banking had revealed lessons that were heeded when our central banking system was established. However, the deficit financing of two world wars and a New Deal have resulted in general disregard of those principles and, for the third time since 1914, the creation of a vast inflation the effects of which already have been far reaching.

The problem of restoring a sound currency and shifting the economy from its present condition of marked inflation to a situation where sound commercial banking will be the rule instead of the exception is a problem of great complexity and magnitude. If a beginning is made in the near future by restoration of the complete gold standard with fulfillment of the Government's promise to pay on demand as printed on each piece of currency, that at least will be a step in the right direction.

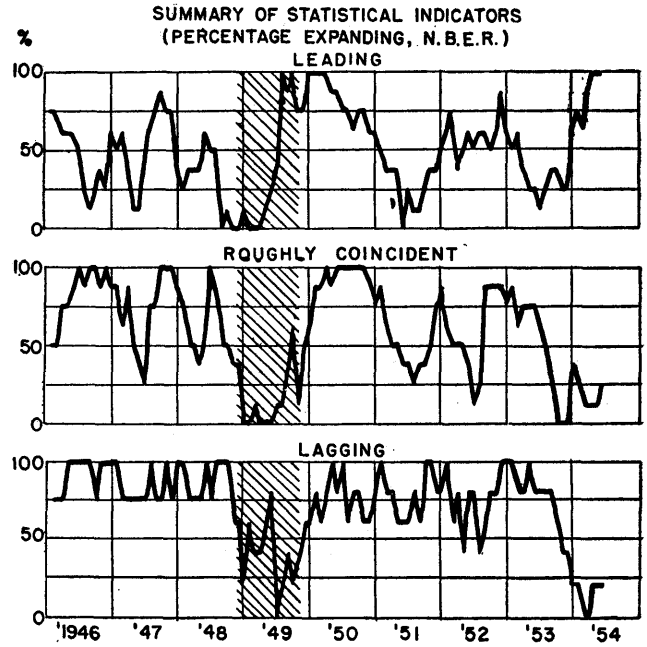
It Could Be

Fortunately, the problem of the huge Federal debt and related fiscal and banking problems may not prove to be so difficult to solve as many observers fear. Doubts have been widespread that the debt can ever be paid, and many shrewd observers have expressed the opinion that continuing depreciation of the dollar is inevitable because of the burden of Government debt.

Perhaps few now living realize that the Nation's post-Civil War debt of nearly $3,000,000,000 was relatively as large, at least in some respects, as the $275,000,000,000 debt today. In relation to the value of current industrial production, today's debt is the same as that at the end of the Civil War. When seen in this relationship, the Federal debt appears to be a less formidable problem.

Even the degree of inflation that exists today apparently need not be an insuperable barrier to sound economic growth. After passage of the Gold Resumption Act of 1875 (with its effective date January 1, 1879) the Nation enjoyed for nearly 20 years the most rapid and sustained industrial growth in its history, in spite of the difficulty of "digesting" the nearly $400,000,000 of inflationary "greenbacks" through the process of gradual deflation. The accompanying almost continual decline in prices proved to be no barrier to industrial growth, although some economists argue today that a rising price level is needed to stimulate such industrial progress.

For these reasons, we do not doubt that further rapid growth of the economy is possible, perhaps at a rate exceeding that at any time during the present century. Of course, even the expectation of such growth may stimulate another speculative boom in real estate or securities; and if we do not soon apply the lessons of sound commercial banking, the aftermath of such a boom could be as disastrous as that after 1929. But until such a speculative boom develops there is at least a chance of rapid and orderly economic growth as gratifying as that during any stage in the Nation's history. We can only report that, in our opinion, "it could be."



What the Indicators Say[4]

The percentages of the eight leading indicators expanding as measured by the summarizing technique of the National Bureau of Economic Research have been revised as follows on the basis of data becoming available during the past month:

Month	*From*	*To*
January	62.5	75.0
February	75.0	62.5
March	75.0	87.5
April	75.0	100.0

The curve for May remains at the 100-percent line.

The percentage of the eight roughly coincident indicators expanding increased to 25 percent in May, the first increase since the beginning of the year. The advance in the index of industrial production for May accounts for the increase. The curve of the lagging indicators was unchanged in May at the 20-percent line for the second month.

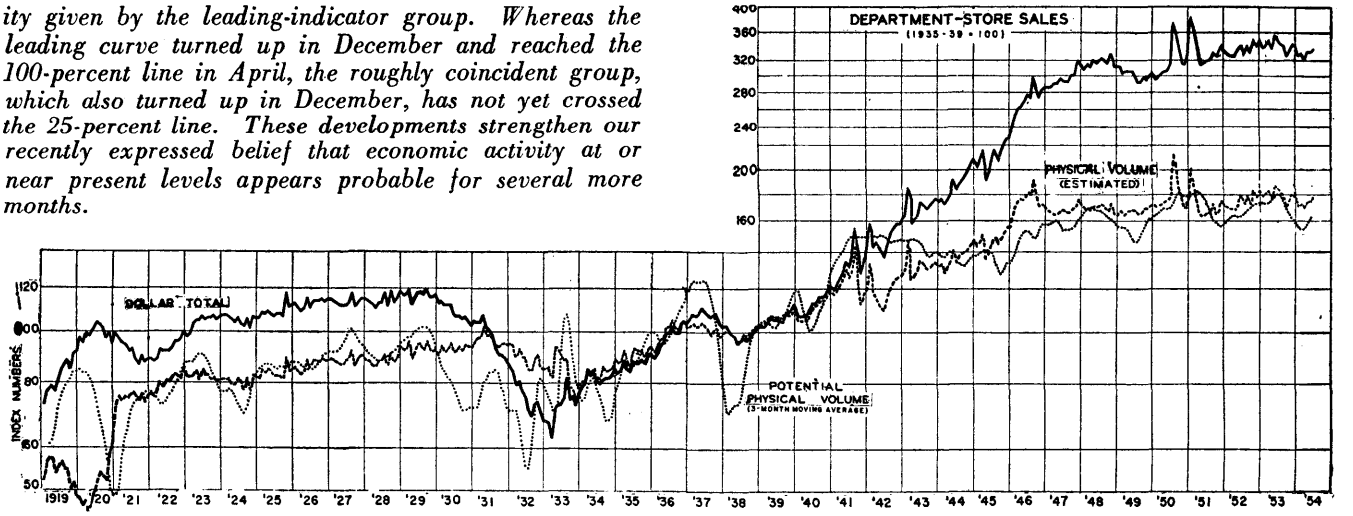
No new data for the individual series have become available since our last bulletin.

The upward movement of steel-scrap prices (not included among the indicators) which began in the second half of March was reversed in June. As of June 22 steel-scrap prices had decreased about 6 percent from their high point for the year to date reached at the end of May. However, they are still about 30 percent above their low point for the year to date reached in March.

The roughly coincident group of indicators is slow in confirming the signs of increased general business activ-

[4]The accompanying chart shows three indices developed according to a method used by the National Bureau of Economic Research and described in our bulletin of March 1, 1954. The indices summarize the overall cyclical status of each of the three groups of statistical indicators. The curves reflect preliminary or estimated data for the latest 2 to 4 months. Thus, revisions in the curves are to be expected as more data become available.

ity given by the leading-indicator group. Whereas the leading curve turned up in December and reached the 100-percent line in April, the roughly coincident group, which also turned up in December, has not yet crossed the 25-percent line. These developments strengthen our recently expressed belief that economic activity at or near present levels appears probable for several more months.



SUPPLY

Industrial Production

Steel-ingot production, scheduled at 67 percent of capacity for the week ended July 3, 1954, was 7 percent less than that in the preceding week and was 23 percent less than production in the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Percent of Capacity†	95*	15	78	28	92*	67p
Weekly Cap. (million tons)	1.38	1.52	1.51	1.54	2.25	2.38
Production (million tons)	1.31	.23	1.18	.43	2.07	1.60

Automobile and truck production in the United States and Canada during the week ended June 26, 1954, was estimated at 141,271 vehicles, compared with a revised total of 140,061 vehicles during the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Vehicles (000 omitted)†	125	55	121	41	174	141p

Electric-power production in the week ended June 26, 1954, increased to 8,981,000,000 kilowatt-hours from 8,850,000,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
Billion Kilowatt-Hours†	1.72	1.44	2.29	2.08	8.45	8.98

Lumber production in the week ended June 19, 1954, decreased. *The New York Times* seasonally adjusted index was 1 point below that for the preceding week but was about equal to that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1953*	*1954*
The New York Times Index†	132	39	97	85	112	112

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

DEMAND

Department-Store Sales

We estimate that the index of the dollar total of department-store sales for June (seasonally adjusted) increased about 1 percent from its revised level for May. Our estimate places the index at a level about 4 percent below that of June 1953 and approximately 6 percent below that of May, 1953.

Our index of prices of goods sold in department stores is estimated for June to be virtually unchanged from that for May and the same as that for June 1953. Consequently, our index of physical volume of department-store sales[5] for June shows the same percentage changes from the levels of a month earlier and a year earlier as does the index of total dollar sales for the corresponding periods.

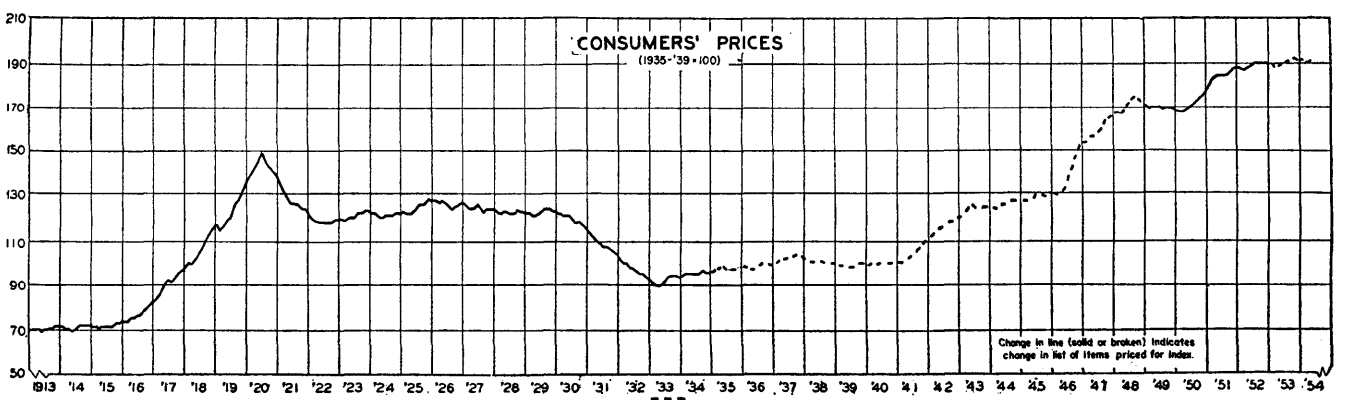
The June 3-month moving average of the index of the potential volume of department-store sales[6] plotted on the third month, increased nearly 3 percent for June. At this level the index was still 11 percent below that of June 1953.

Reports from the trade indicate that department-store sales have benefited by the arrival of summer with "sunny skies and favorable shopping weather." New York stores are reporting a favorable response to a recently launched "summer festival." However, areas in which industrial production has decreased most have, in recent weeks, reported sales off as much as 30 percent from those of corresponding weeks last year.

Developments in June strengthen the view expressed last month that a leveling-off or moderate increase in

[5]This index is computed by dividing the index of the dollar total of sales by that of prices.

[6]This index reflects changes in the total production of the principal items sold through department stores.



department-store sales is probable during the second half of the year.

Latest Weekly Data

Department-store sales for the week ended June 26, 1954, were 18 percent less than sales in the previous week but were 3 percent more than sales in the corresponding week last year.

PRICES

Consumers' Prices

Prices of goods and services bought by moderate-income city families increased four-tenths of a point during the month ended May 15 according to the Bureau of Labor Statistics. At this level the Bureau's index of these prices was only three-tenths of 1 percent below the alltime record reached in October 1953. Moreover, the index was seven-tenths of 1 percent above that of May 1953 and equal to that of mid-February 1954, after which time the index declined to mid-April. The increase in the index for May equaled two-thirds of the decrease since February.

According to Ewan Clague, Federal Commissioner of Labor Statistics, the price situation is "stable." He added that he did not "see any factor of change in the immediate future other than seasonal movements."

The increase of eight-tenths of 1 percent in the food component was primarily responsible for the increase in the index. Food prices were slightly more than 1 percent above those of May 1953 and nearly 13 percent higher than those of June 1950.

Prices of most meats advanced during the month, whereas prices of eggs decreased further for the seventh consecutive month. Since October 1953 egg prices have decreased 33 percent. A reduction in the size of chocolate candy bars, equivalent in effect to an increase of 2 percent in price, is an example of small price increases not readily apparent to the consumer.

The increase of three-tenths of 1 percent in the housing component of the index reflects increases effective earlier in the rates of mortgage interest, real-estate taxes, and fire insurance.

Price changes in the other groups were even smaller. Medical-care costs increased two-tenths of 1 percent; apparel prices and personal-care costs each increased one-tenth of 1 percent. Reading and recreation costs decreased one-tenth of 1 percent, reflecting lower prices for new-model television sets. The transportation component of the index was unchanged.

The May increase in the index appears to be attributable largely to seasonal factors. Moreover, keener competition for business has resulted in unreported price reductions as yet not reflected in the index. Consequently, we continue to believe that, despite temporary interruptions, the trend of the index during the next several months will be moderately downward.

Commodities at Wholesale

(August 1939=100)	1953 July 1	1954 June 24	1954 July 1
Spot-Market Prices (22 basic raw materials)	266	282	282
Commodity Futures Prices (Dow-Jones Daily Index)	330	375	380

BUSINESS

The Trend of Business Failures

The 3-month moving average of liabilities of business failures for April decreased 6 percent. However, the average was still 51 percent above that for April 1953.[7] The decrease was the first since December 1953. The average for April was 43 percent above the previous record of March 1949 and 129 percent above the low point of August 1952, from which point the present upward trend began.

The monthly total of liabilities of business failures, which decreased 26 percent during April, decreased 10 percent further during May. Nevertheless, liabilities in May were 17 percent greater than those of May 1953 and totaled $38,494,000, compared with $42,512,000 in April and $32,789,000 in May 1953. The number of failures in May was 943, compared with 975 in April and 638 in May 1953.

Failure liabilities of both the wholesale and retail trade groups increased slightly during May; those of the construction group were virtually unchanged, whereas liabilities of mining and manufacturing and commercial-service groups decreased considerably.

There were 4,813 failures during the first 5 months of 1954, compared with 3,467 during the corresponding period last year. Business-failure liabilities during these periods totaled $215,652,000 and $141,973,000, respectively.

Dun & Bradstreet reported 846 failures during the 4 weeks ended June 24, compared with 908 during the corresponding period in May. Of these failures those having liabilities of $100,000 or more numbered 63 in the June period and 69 in the May period.

Total liabilities for June are expected to be somewhat less than those of March, which they will replace in our 3-month moving average. Thus, the average for May probably will move downward.

[7]The moving average is based on data reported by Dun & Bradstreet, Inc., and plotted at the midmonth; monthly figures are those of Dun & Bradstreet.