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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The President's Economic Report

During the preceding Administration the annual *Economic Report of the President* was accompanied by a similarly detailed report prepared by the President's Council of Economic Advisers. That practice has been discontinued with the result that one no longer can differentiate between the economic analyses of the Council and those of the President. Presumably, the report consists in large part of material provided by the Council, but the President has assumed responsibility for the report in its entirety.[1]

We consider the 1955 report the best of those issued to date. Its analysis of the 1953-54 recession and the present recovery is excellent. In that respect, it presumably reflects the painstaking work of Dr. Arthur F. Burns, Chairman of the Council and a leading student of business cycles for many years. In fact, the report seems to us so useful in large part that we have devoted much of the remainder of this article to quotations from the report itself or the President's summary.

"The main sources of our Nation's economic strength are its free institutions and the qualities of its people—their ambition, skill, enterprise, and willingness to make great efforts in their own behalf and in behalf of their families and communities.

"The need of our times is for economic policies that, in the first place, recognize the proven sources of sustained economic growth and betterment, and in the second place, respect the need of people for a sense of security as well as opportunity in our complex, industrialized society.

"A free economy has great capacity to generate jobs and incomes if a feeling of confidence in the economic future is widely shared by investors, workers, businessmen, farmers, and consumers.

"Many factors favor a continuation of our vigorous economic growth. The population is increasing rapidly, educational levels are rising, work skills are improving, incomes are widely distributed, consumers are eager to better their living standards, businessmen are starting new enterprises and expanding old ones, the tools of industry are multiplying and improving, research and technology are opening up new opportunities, and our public policies generally encourage enterprise and innovation.

"In the future as in the past, increases in productivity and in useful employment opportunities will be the core of economic expansion.

"The role of the Federal Government in the achievement of these goals is to create an atmosphere favorable to economic activity by encouraging private initiative. curbing monopolistic tendencies, avoiding encroachment on the private sector of the economy, and carrying out as much of its own work as is practicable through private enterprise. It should take its full part at the side of State and local governments in providing appropriate public facilities. It should restrain tendencies toward recession or inflation. It should widen opportunities for less fortunate citizens, and help individuals to cope with the hazards of unemployment, illness, old age, and blighted neighborhoods."

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"The year 1954 was one of transition from contraction to recovery. The contraction reflected the efforts of businessmen to reduce inventories, * * * .

"The contraction was relatively mild and brief, because of a variety of timely public and private actions.

"The Government cut taxes, the Federal Reserve System eased credit conditions, and the Treasury arranged its financing so as not to compete with mortgages and other long-term issues. A comprehensive program for encouraging private enterprise was submitted to the Congress. Apart from this, the decline in private income was automatically cushioned by increased payments of unemployment insurance and other benefits and by sharp cuts in taxes due the Government on the reduced incomes.

"Consumers maintained a high rate of spending, businessmen kept capital expenditures at a high rate, builders stepped up their activities, trade unions conducted their affairs with a sense of responsibility, farmers recognized the dangers of piling up even larger surpluses, private lenders made ample supplies of credit available on liberal terms. States and localities carried out large construction programs, and export demand remained strong.

"Instead of expanding Federal enterprises or initiating new spending programs, the basic policy of the Gov-

[1]Although we, and probably other economic analysts as well, should like to have available the report of the Council on which the President's report presumably is based, the present practice seems, on the whole, to be preferable to that followed earlier. The members of the Council are now free to advise the President as economic scientists and need give no consideration to the political implications of their reports to him, a most desirable situation. However, the public should realize that the *Economic Report of the President* may differ in details of analyses, findings, and recommendations from the confidential reports made by the Council. No longer is it sound to hold the Council responsible for all aspects of the *Economic Report.*

ernment in dealing with the contraction was to take actions that created confidence in the future and stimulated business firms, consumers, and States and localities to increase their expenditures.

"The vigor of the recent recovery, which has already made up half of the preceding decline in industrial production, suggests that economic expansion will probably continue during coming months. It holds out the promise that we shall achieve a high and satisfactory level of employment and production within the current year.

"A further expansion of consumer spending may reasonably be expected; we are soon likely to experience some rebuilding of inventories; the decline of Federal spending next year will be less rapid than during the last two years; States and local expenditure will probably continue to expand; the outlook for housing and commercial construction continues to be good; there is a prospect that plant and equipment expenditures may turn upward, as the general economic advance proceeds; the outlook for export demand is brightened by the economic resurgence of an ever-widening area of the Free World.

"It is essential to keep a close watch on financial developments; continued economic recovery must not be jeopardized by overemphasis of speculative activity.

"*Toward Sustained Economic Growth*

"The wise course for Government in 1955 is to direct its program principally toward fostering long-term economic growth rather than toward imparting an immediate upward thrust to economic activity.

"Further efforts to reduce Federal expenditures, together with increasing revenues from a tax base growing as the economy expands, should make possible some additional general tax reductions next year. Progress could then also be made in further lowering tax barriers to the free flow of funds into risk-taking and job-creating investments.

"Government should persist in its efforts to maintain easy entry into trade and industry, to check monopoly, and to preserve a competitive environment. Continued encouragement should be given to small and new businesses.

"Scientific research and development activities in all their phases should continue to have the earnest support of the Federal Government.

"Measures by ourselves and other nations to reduce existing barriers to international trade, payments, and investment will make the Free World stronger and aid our own economic growth."

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"Our Nation's recent history teaches that a foresighted Government can do much to help keep the economy stable, but experience affords no good basis for a belief that the Government can entirely prevent fluctuations."

We turn now to brief criticism of certain features of the report. Although the document as a whole seems to reflect restraint rather than an excess of confidence in the powers of Government, certain comments suggest that some of the President's advisers (possibly not members of the Council) are overconfident of the Government's capacity for coping with business downturns. In this connection the following is of interest:

"In the course of our latest encounter with the business cycle we have learned or relearned several lessons. First, that wise and early action by Government can stave off serious difficulties later. Second, that contraction may be stopped in its tracks even when governmental expenditures and budget deficits are declining, provided effective means are taken for building confidence."

We doubt that Dr. Burns or his associates on the Council of Economic Advisers wrote these statements. They seem to us like the rather cocksure conclusions of less experienced and less cautious men. Of course, the use of "can" rather than "may" in the statement of the first lesson may have been inadvertent, but even the second lesson, in the statement of which "may" rather than "can" is used, likewise seems to us *not* a justifiable conclusion merely from the Nation's recent experience.

Although the President has not espoused specifically the new-construction panacea for a serious depression, the plan for a Coordinator of Public Works Planning, the major highway project proposed, and other features of the report suggest that at least some of the President's advisers have faith in certain aspects of the spend-for-prosperity notions. Many observers today seem to think that the new-construction panacea is a strictly New Deal idea. However, Mr. Eisenhower may well have inherited it from the Republicans who boasted of Mr. Hoover's plans along those lines in 1928. Expenditures for public works were to remedy any depression "in the twinkling of an eye." However, that was a long, slow "twinkle" during the 1930's, during which the Democrats adopted the original Republic scheme, albeit without marked success.

Assertions regarding the proposed increase in the minimum wage also seem to us political rather than scientific. The flat assertion is made that "an increase to 90 cents an hour would be appropriate and consistent with over-all economic considerations at this time," * * * 90 cents is the highest minimum wage that can be economically justified in present circumstances." The means of computing the precise amount indicated is not revealed, and we suspect that neither Dr. Burns nor his associates on the Council would wish to be considered responsible for alleging that any such specific figure has any scientific basis.

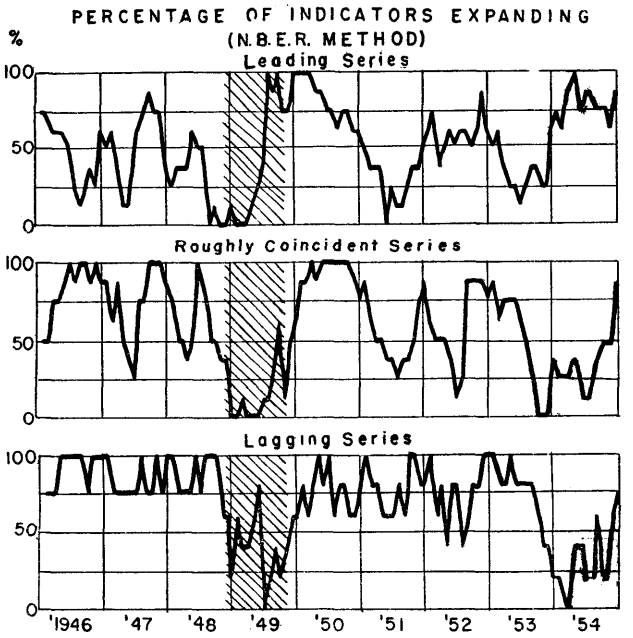
The proposal to change the present limitation of 10 years on mortgages made by national banks to 20 years, is believed to be a step in the wrong direction. However, the commercial banks generally are so overloaded already with investment-type assets that the change proposed is relatively unimportant.

Our major criticism of the report is that it nowhere discusses the dangerous aspects of the economic situation in the United States. The report implies that the only important economic problem requiring serious consideration is that of coping with cyclical recessions. The President's state-of-the-union message and the budget message likewise revealed no awareness of certain economic maladjustments now existing and their disturbing implications. We shall devote a subsequent article to that subject under the heading, "Our Estimate of the Situation."

What the Indicators Say

The percentages of indicators expanding, as measured by the method of the National Bureau of Economic Research, are 87½ for both the leading and roughly coincident groups and 80 for the lagging group.

The *Iron Age* composite price of No. 1 steel scrap increased $1.00 during the week ended January 25 to $35.50.



The increase in the curve of the lagging indicators reveals the widening breadth of the current cyclical recovery; the increase in the curves of the leading indicators suggests that a downturn in general business activity is improbable during the next several months.

SUPPLY

Industrial Production

Steel-ingot production of 2,061,000 tons during the week ended February 5, as indicated by operations scheduled at 85.4 percent of capacity, compares with 2,051,000 tons during the preceding week and 1,760,000 tons during the corresponding week last year.

The New York Times seasonally adjusted index of lumber production was 140.2 for the week ended January 22, compared with 139.7 a week earlier and 122.3 for the corresponding week last year.

Electric-power production of 10,003,000,000 kilowatt-hours during the week ended January 29 compares with 9,981,000,000 kilowatt-hours for the previous week and 8,860,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 192,100 vehicles for the week ended January 29, compares with a total of 189,500 for the previous week and 143,700 for the corresponding week last year.

These data compare with those for the corresponding weeks of earlier years as follows:

	1929	*1932*	*1948*	*1949*	*1954*	*1955*
Steel						
Operating rate—percent cap.	85	27	94	101	74	85*p*
Ingot prodn.—million tons	1.17	.41	1.69	1.86	1.76	2.06
Lumber						
New York Times Index	145	39	120	95	122	140
Electric Power						
Kilowatt-hours—billions	1.72	1.59	5.43	5.81	8.86	10.0
Automobiles						
Vehicles—thousands	107	29	101	116	144	192*p*

p Preliminary

DEMAND

Department-Store Sales

According to our estimate, department-store sales, seasonally adjusted, increased 2 percent in January from those of December (revised) to an amount 7 percent more than sales of January 1954.

The January index of the physical volume of department-store sales was 1½ percent larger than the December index and about 13 percent larger than the January 1954 index.

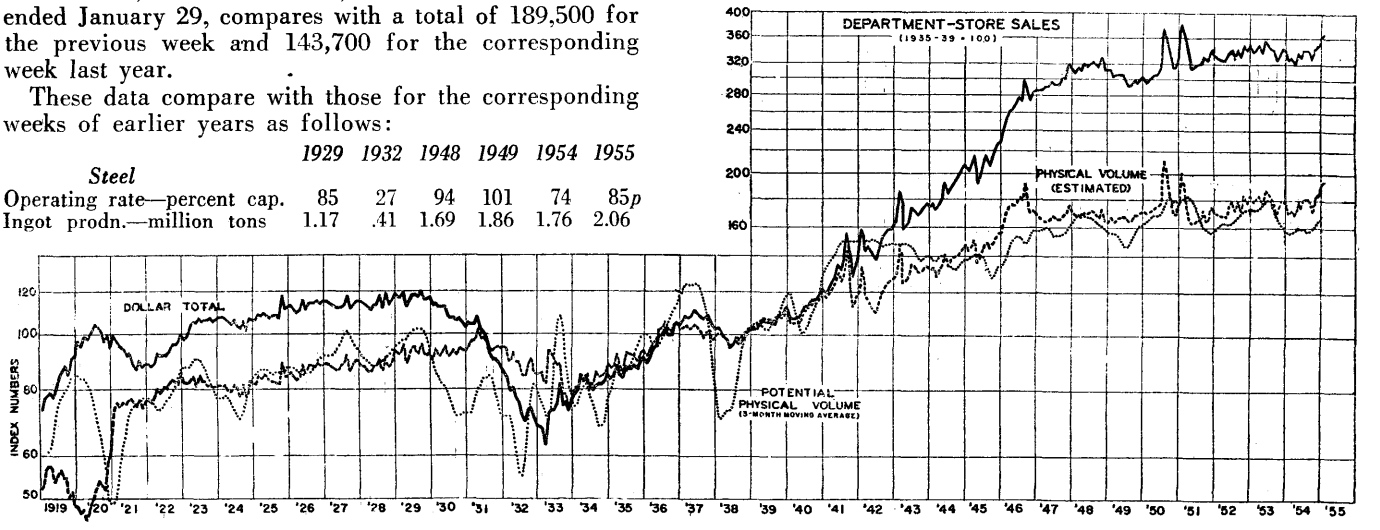
Our index of the potential volume of department-store sales (a production index of goods sold in department stores constructed as a 3-month moving average) increased 2 percent during December and 4 percent during the year. The tendency of the index of physical volume to increase faster than the index of potential volume suggests an improved inventory position for the department stores. Moreover, inventories currently, as compared with those of a year ago, are reported to be in a better relationship to sales.

The returns from a questionnaire sent out by the National Retail Dry Goods Association indicates that, of the department stores replying, 62 percent expect dollar volume to improve in the first half of 1955, and 34 percent expect this improvement to be 4 percent or more. Professor McNair of the Harvard Graduate School of Business Administration told dry-goods merchants at their recent convention that they could expect a sales increase of 3 percent in the spring season compared with sales a year earlier. These estimates were made before the improved January increases of 13 and 16 percent for the first 2 weeks in January had become known.

The upward trend of department-store sales in January has exceeded general expectations. Although we believe that this rate of increase may not be maintained, we believe that sales for the first half of 1955 will be at least 3 percent more than those of the corresponding period of 1954.

Latest Weekly Data

Sales of the 325 reporting department stores compare



with those of corresponding periods a year ago as follows:

Period	*Percent Change*
Week ended January 29	+ 1
Four weeks ended January 29	+10

PRICES

Consumers' Prices

Prices of goods and services bought by moderate-income city families, as measured by the United States Bureau of Labor Statistics index of consumer prices, receded three-tenths of a point during the month ended December 15. The December index was the smallest since that of May 1953, but it was still only about 1 percent less than that of October 1953, when an alltime record was reached. For the first time since 1949 the index decreased for an entire year.

The December decrease is attributable primarily to lower food prices, especially prices for eggs, pork, chicken, lettuce, and oranges. The food component of the index decreased six-tenths of 1 percent between mid-November and mid-December to a level about 1½ percent less than that of December 1953.

The housing component, which includes rent, fuels, utilities, housefurnishings, and household operations, and the medical-care component of the index both increased slightly in December, but all other components decreased slightly.[2]

In its monthly report on the index the Bureau noted that residential rents, a component of housing, appeared to be leveling off for the first time since mid-1947, when Federal rent controls were first relaxed. Also noteworthy are trade reports that new-automobile prices, a subcomponent of the index, are still being cut by dealers.

We expect that the general trend of consumers' prices will continue to be slightly downward during the next several months.

Commodities at Wholesale

	1954	*1955*	
Index	*Feb. 2*	*Jan. 26*	*Feb 2*
Spot-market, 22 commodities	270	282	283
Commodity futures	355	365	359

Note: The indexes are respectively those of the United States Bureau of Labor Statistics and Dow Jones. Both indexes are converted so that their August 1939 daily averages equal 100.

[2]The components of the index and their index weights are: housing, 32; food, 30; transportation, 11; apparel, 10; reading and recreation, 5; other goods and services, 5; medical care, 5; and personal care, 2.

BUSINESS

The Trend of Business Failures

Our 3-month moving average of liabilities of business failures for November increased about 3½ percent, but was about 11 percent less than that of November 1953.[3]

Failure liabilities in December, totaling $40,100,000, were 14 percent more than those in November, but were 9 percent less than those in December 1953. This December increase was, however, only slightly more than that seasonally expected. The number of failures in December was 917, compared with 933 in November and 813 in December 1953.

Liabilities of business failures for 1954 totaled $463,000,000, compared with $394,000,000 for 1953. This was the fourth successive year of increase.

Failures in 1954 were reported at 42 for each 10,000 enterprises listed in Dun & Bradstreet's *Reference Book*, compared with 33 in 1953 and 55 in 1941.

Liabilities of business failures have recently tended to increase more than seasonally. However, in the light of overall business conditions, we do not believe that the general downward trend of business failures will be reversed during the next several months, although erratic monthly movements of the series may have a leveling effect on its trend. In this connection, readers will note by reference to the chart that liabilities of failures are in the general range of such figures for the prosperous years of the mid-1920's. Because the total assets and liabilities of businesses today are several times those of the 1920's, a substantially larger total of failure liabilities may become commonplace in the next several years. Nevertheless, the marked changes in trends presumably will continue to have the usual cyclical significance.

Business Failures: Number and Liabilities

Month	*Number*			*Liabilities (000 omitted)*		
	1952	*1953*	*1954*	*1952*	*1953*	*1954*
January	671	647	867	$26,208	$23,309	$29,592
February	619	691	926	19,474	27,273	47,774
March	715	739	1,102	29,232	31,082	57,280
April	780	693	975	29,530	27,520	42,512
May	638	697	943	21,193	32,789	38,494
June	671	817	965	21,222	32,379	41,613
July	580	724	856	22,789	39,830	32,230
August	594	700	912	16,322	28,529	32,582
September	539	686	819	20,138	33,817	36,381
October	631	840	871	35,049	37,076	29,000
November	590	815	933	18,757	36,795	35,067
December	583	813	917	23,400	43,754	40,103
Total	7,611	8,862	11,086	$283,314	$394,153	$462,628

[3]The average is based on data reported by Dun & Bradstreet and is plotted at the midmonth; the monthly figures are as reported by Dun & Bradstreet.