AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON MASSACHUSETTS

WEEKLY BULLETIN

June 13 1955

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Significance of the Ford Agreement

The guaranteed annual wage has been viewed with alarm as a threat to free enterprise by the National Association of Manufacturers and has been urged as the answer to the workingman's fear of unemployment by others who argue that it also would tend to stabilize the economy. We not only believe that neither of these extreme viewpoints is sound but also that what may prove to be the most significant outcome of the Ford settlement has hardly been mentioned. Of course, we assume that the principles involved in the Ford agreement will be extended broadly to other companies in the automobile industry and may be accepted by the industry generally within a few years.

In the first place, it should be noted that "guaranteed annual wage" is a misnomer for the principle involved in the Ford agreement. Applying that name to the plan may help Mr. Reuther to "save face," but it does not alter the substance of the agreement.

Briefly, the Ford plan simply supplements the unemployment-benefit system already in effect throughout the Nation. It no more involves a "guaranteed annual wage" than does the governmental system that has been in effect for some years.

Details of the Plan

Specifically, the Ford plan provides for payments to supplement the statutory unemployment benefits up to a maximum of $25 per week from the company but with an overall limit on the unemployment benefits plus company payments set at 65 percent of the employee's after-tax pay for the first 4 weeks of the statutory benefit period and at 60 percent of after-tax pay for the remainder of the statutory period. (There is no coverage for the first week of unemployment either by the statutory benefits or by company payments.)

Moreover, the company's liability is definitely limited to the amounts to be accumulated in two trust funds (one for regular employees, another for those on defense work). These funds are to be accumulated by company contributions equal to 5 cents per hour for every employee. In order that the funds may accumulate to a reasonable amount before any payments begin, no payments are to be made from the trust funds for 1 year.

Provision is made for reducing the level of benefit payments as the trust funds decrease in order to avoid their untimely exhaustion. Of course, the supplementary payments would terminate when and if the trust funds were nearly exhausted. Thus it will be seen that the agreement is vastly different from the earlier notion of a guaranteed annual wage involving unlimited company liability.

The Plan Summarized

What the plan amounts to in substance is as follows:

a. The employees have agreed that 5 cents per hour of their pay increase may be placed in a trust fund as a form of compulsory saving.

b. These savings are to be distributed on a socialistic basis among the employees; that is, on the principle of "from each according to his ability, to each according to his needs," the criterion of need being unemployment.

c. Like most other unemployment compensation schemes, this plan simply takes funds, on balance, from those more regularly employed and gives funds, on balance, to those less regularly employed.

Possibly, however, a slight advantage will accrue to all employees as compared with the situation that would exist if the 5 cents per hour were simply added to the pay of employees. At the wage and income-tax rates now prevailing, the employees would get only 4 of the 5 cents and the U. S. Treasury would get the other cent (or 40 cents per week, $20.80 per year). Under the plan, Uncle Sam will not get his "cut" of the 5 cents, and to that extent the employees as a group may be said to benefit, although this benefit likewise will be by no means equally distributed.

The foregoing makes clear that the guaranteed annual wage with all the threats to the free enterprise system foreseen by some extremists simply is not involved in the Ford settlement. That the Ford Company has sold Mr. Reuther a forced-saving plan involving no company liability whatsoever is evidence of the astuteness of Ford management. We do not assume that Mr. Reuther has been fooled, but that he believes the rank and file members of his union may be.

The More Significant Effects

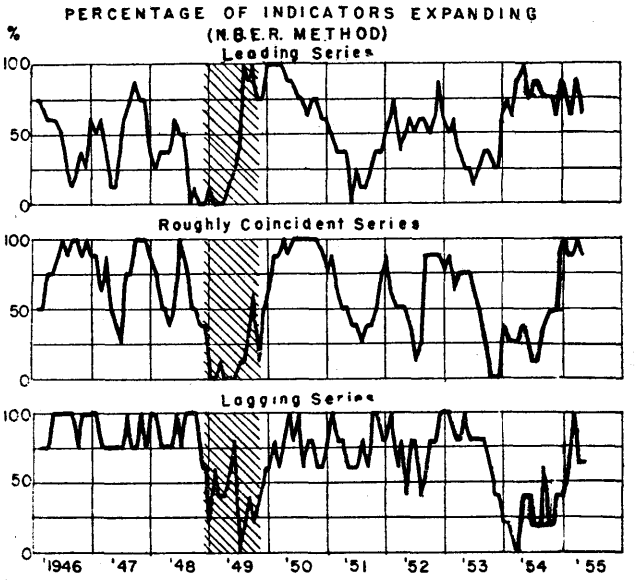
Presumably the direct effects on the economy of the Ford forced-savings-and-redistribution-of-surplus-income scheme will be negligible. The Ford employees are in a position to afford this "luxury" (or "necessity" if they so regard it). It will cost the Ford Company nothing, because the 5 cents merely would otherwise have been part of the increased current-wage settlement.

We do not imply that Ford can increase wages without cost, but assume that wage increases granted by the

company under the competitive conditions existing are merely what the company presumably deems necessary in order to retain its employees. If the company's judgment is proved to have been sound, it will merely have been coping with a general inflationary situation that certainly was not created by the Ford Company.

Nevertheless, the general adoption of such plans may ultimately have important effects. If the trust funds were exhausted during a severe depression, the company would be under pressure in subsequent bargaining to increase the contributions to the trust funds at a time when decreased rather than increased wages might be called for by the then existing competitive situation. In short, the widespread adoption of such plans presumably will tend to align management on the side of the labor unions in urging the inflation panacea during any future recessions of large proportions. We think that the most significant long-run consequence of the new forced saving-and-redistribution-of-income scheme may well be to strengthen the pressure groups that may be expected to favor inflation as a "way of life" regardless of the consequences to the value of the dollar.

What the Indicators Say



The percentages of statistical indicators expanding, as measured by the method of the National Bureau of Economic Research,* are 62½ for the leading group, 87½ for the roughly coincident group, and 80 for the lagging group..

The *Iron Age* composite price of No. 1 heavy-melting steel scrap for the week ended May 31 was $34, compared with $34 for the preceding week and $28.58 for the corresponding week last year.

*This method of summarizing the cyclical status of each of the three groups of indicators was outlined in *Research Reports*, March 1, 1954.

Conclusion

The curve of the leading indicators expanding decreased to 62½ percent, corresponding to the percentage reported last week for the leading indicators, as measured by the A. I. E. R. method. This decrease supports questions raised last week concerning the longer term business outlook. However, in view of the limitations inherent in all forecasting techniques, more substantial evidence is needed to warrant a conclusion other than that the business outlook remains favorable.

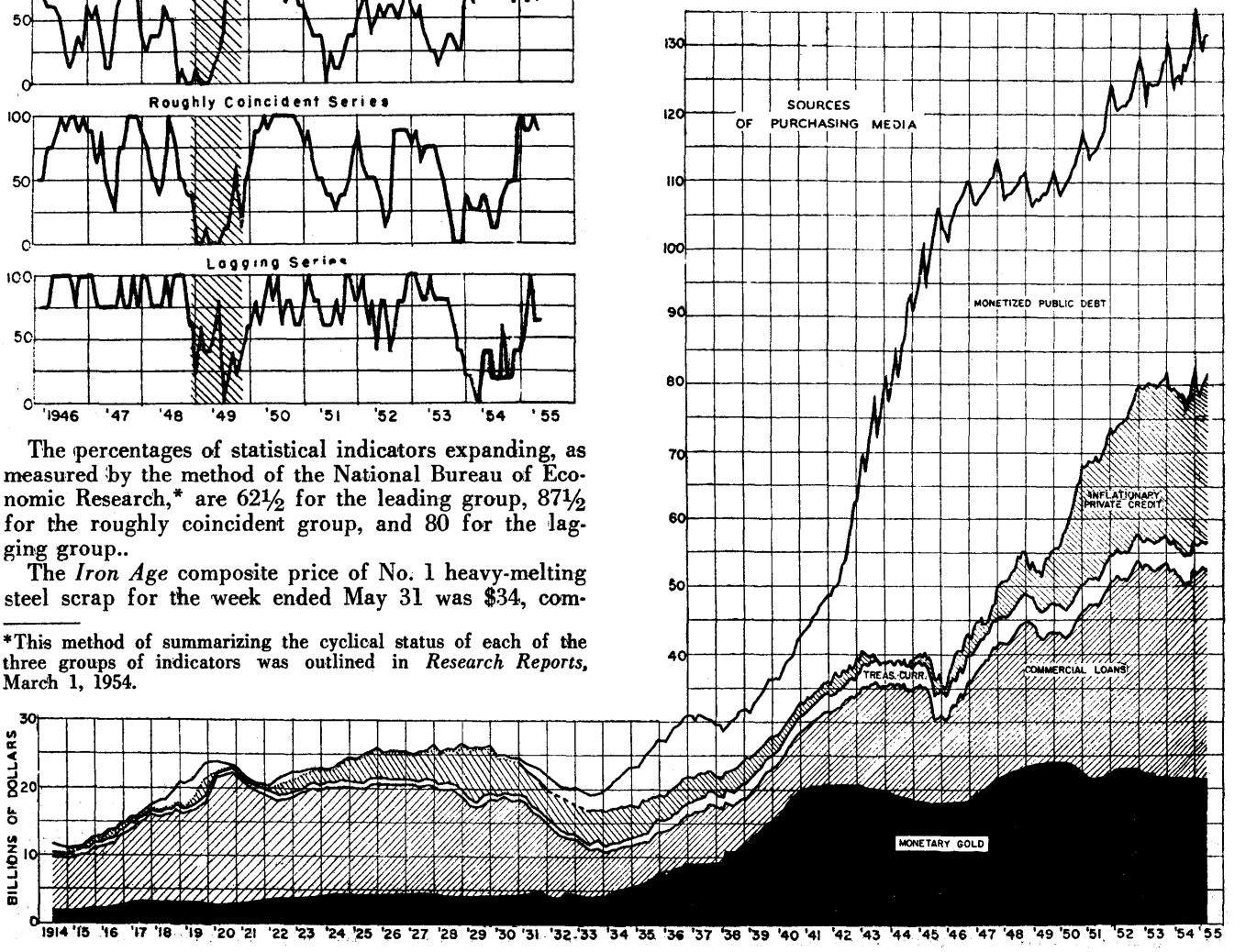
DEMAND

Purchasing Media

The total amount of purchasing media at the end of May, estimated at nearly $132,000,000,000, compares with $131,500,000,000 (revised) at the end of April and $125,800,000,000 at the end of May 1954.

Noninflationary

Noninflationary purchasing media, that derived from gold and from commercial, industrial, and agricultural loans, totaled approximately $52,900,000,000 at the end of May. This amount compares with $52,800,000,000 at the end of April and $51,100,000,000 at the end of May 1954.



The amount of purchasing media derived from gold, nearly $21,700,000,000, was virtually unchanged from that at the end of April and compares with $22,000,000,000 at the end of May 1954. The amount derived from commercial, industrial, and agricultural loans, about $31,200,000,000, was slightly more than that at the end of April and compares with about $30,900,000,000 at the end of April 1954.

Inflationary

Inflationary purchasing media, that derived from silver or from credit extensions other than commercial, industrial, and agricultural loans, totaled about $78,800,000,000 at the end of May. This amount compares with $77,700,000,000 (revised) at the end of April, and $74,700,000,000 at the end of May 1954.

Purchasing media derived from silver and the general credit of the United States and circulating as Treasury currency totaled about $4,100,000,000 at the end of May, compared with about $4,060,000,000 at the end of May 1954. Monetization of Government securities by the commercial banks and the Federal Reserve banks (in the form of checking accounts and Federal Reserve notes respectively) accounted for $50,100,000,000 of inflationary purchasing media at the end of May, compared with $50,700,000,000 (revised) at the end of April and $47,600,000,000 at the end of May 1954.

Monetization of real-estate and installment loans accounted for much of the remaining $24,700,000,000 of inflationary purchasing media at the end of May, compared with $23,600,000,000 (revised) at the end of April and $23,000,000,000 at the end of May 1954.

Conclusion

Total purchasing media is expected to remain relatively stable for another month or two. Thereafter, monthly increases appear probable until December, when the total may reach an alltime record.

Department-Store Sales

Sales of the 325 reporting department stores compare with those of corresponding periods a year ago as follows:

Period	*Percent Change*
Week ended June 4	+5
Four weeks ended June 4	+9
Year to date	+7

SUPPLY

Industrial Production

Steel ingot production of 2,334,000 tons during the week ended June 11, as indicated by operations scheduled at 96.7 percent of capacity, compares with 2,312,000 tons during the preceding week and 1,740,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 115.5 for the week ended May 28, compared with 120.9 a week earlier and 111.8 for the corresponding week last year.

Electric-power production of 9,537,000,000 kilowatt-hours during the week ended June 4 compares with 9,976,000,000 kilowatt-hours for the previous week and 8,250,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 172,800 vehicles for the week ended June 4, compares with a total of 209,800 for the previous week and 119,700 for the corresponding week last year.

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

	1929	*1932*	*1948*	*1949*	*1954*	*1955*
Steel						
Operating rate—percent cap.	95	17	96	89	73	97p
Ingot prodn—million tons	1.31	.26	1.73	1.64	1.74	2.33
Lumber						
New York Times Index	130	39	80	88	112	116
Electric Power						
Kilowatt-hours—billions	1.62*	1.38*	4.85*	5.02*	8.25*	9.54*
Automobiles						
Vehicles—thousands	111*	50*	76*	98*	120*	173*p

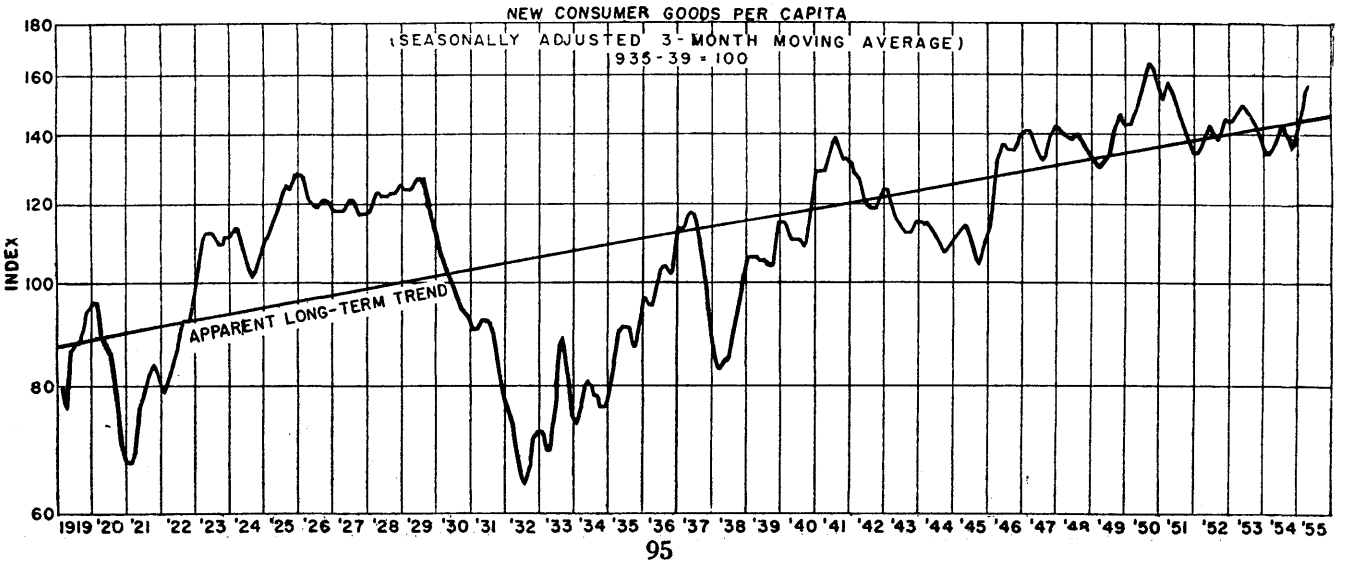
p Preliminary; *Holiday week

New Consumer Goods Per Capita

Our index of new consumer goods per capita increased for the sixth successive month to an amount 1 percent more than that for March.† The index was 12 percent larger than that for April 1954 and 6 percent larger than that for April 1953, a month in which employment and manufacturing activities were more comparable with April 1955. Except for the last 6 months of 1950, the index is at an alltime record.

The production of consumer goods for both March

†The index reflects production of seven categories of consumer items accounting for more than two-thirds of all consumers' purchases. The index is a 3-month moving average, plotted at the third month.



and April, seasonally adjusted but not adjusted for population increases, was at an alltime record. Population reached 165,000,000 during May; in 1950, when the per capita production was slightly larger than at present, population was 152,000,000.

The production of passenger cars in the first 5 months of 1955 is estimated as 3,700,000, compared with 2,550,000 in the corresponding period of 1954. Even if the car production for the remainder of 1955 does not exceed that of the corresponding period of 1954, the alltime record for passenger-car production achieved in 1950 will be exceeded.

Although the seasonally adjusted index of residential construction decreased slightly in April, 126,500 new nonfarm-dwelling units were started, and the seasonally adjusted annual rate of new privately owned dwellings is in excess of 1,300,000. Furniture production increased to an amount 2 percent more than that of March. Of the nondurable components of the index, food production increased 1 percent and textiles and apparel remained unchanged. Shoe production continued at the alltime record achieved in March; production of tobacco products increased one-half of 1 percent during the month.

A larger proportion of all manufactured goods is being made for consumers. According to the Federal Reserve Board, the seasonally adjusted output of consumer durables increased 3 percent during April and was 23 and 3 percent more than production in April 1954 and April 1953 respectively.

The indexes of industrial production for April 1955 and April 1953 were the same, both 10 percent larger than that of April 1954.

Conclusion

Continued large production of new consumer goods seems probable during the next several months. A possibly more-than-seasonal decrease in automobile production may be offset by increases in other components of the index.

PRICES

Commodities at Wholesale

	1954	*1955*	
Index	*June 8*	*June 1*	*June 8*
Spot-market, 22 commodities	286	273	275
Commodity futures	378	322	324

BUSINESS

Ratio of Retail Inventories to Sales

On the basis of preliminary data we estimate that the ratio of inventories to sales of the 325 reporting department stores is now at its lowest point since 1949, except for the scare-buying months of the Korean War. The inventory-sales ratio remains at the same level as that for April, which revised data reveal was substantially less than preliminary data had indicated a month ago. The May ratio is 9 percent less than that of May 1954 and 5 percent less than that of May of the more comparable year, 1953, when sales were following an upward trend similar to that of this year.

The average inventory-sales ratio for the first 5 months of 1955 approximates that of the late 1930's, when maximum efficiency in the management of department-store stocks was consistently attained. Since that time wars, shortages, and abnormal price changes have prevented department-store executives from following a consistent inventory policy. It now appears that, with relatively stable prices and an adequate supply of merchandise available, well maintained basic stocks are possible. Replenishment of goods sold is quickly made with little inventory change. This result is shown in the seasonally adjusted index of department-store inventories, which has remained unchanged for 3 months. The May index of department-store inventories is 1 percent larger than that of May 1954 but 3 percent less than that of May 1953.

The estimated seasonally adjusted index of department-store sales for May is 10 percent and 2 percent larger than those for May 1954 and May 1953 respectively. The larger amount of dollar sales in spite of similar or smaller dollar inventory perhaps reflects improved merchandising efficiency, but we assume that the relatively smaller inventories will preclude any significant deferment of new orders as long as the recent rate of sales continues.

The dollar amount of merchandise received by department stores in April was 7 percent more than that in April 1954, and it is estimated that merchandise receipts in May are 10 percent more than those in May 1954.

New orders placed by the 325 department stores reporting to the Federal Reserve Board were also ten percent larger in April than the total for April 1954. Outstanding orders of these stores at the end of April compared with outstanding orders at the end of March decreased about 20 percent, a smaller contraction than has been usual between these months in recent years.

The favorable outlook for retail sales and the favorable inventory-sales ratio suggest that current high levels of consumer demand will continue to support manufacturing activity through a large flow of new orders from department stores.