

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Treasury Operations for the Fiscal Year Ended June 30, 1955*

The Government's deficit for the year ended June 30, 1955, as computed from preliminary Treasury figures, was nearly \$4,200,000,000. This amount compares with \$4,500,000,000 forecast by the Government last January, and with \$3,100,000,000 as the deficit for the year ended June 30, 1954.

The smaller deficit than that forecast last January was the result of both larger expenditures and larger receipts than those forecast last January. Expenditures were about \$1,000,000,000 more and receipts were approximately \$1,300,000,000 more than those estimated in January. The excess of expenditures beyond those estimated reflects farm-support-program payments larger than those expected; the excess in tax receipts reflects primarily receipts from income taxes greater than those expected. Taxes on incomes of individuals yielded about \$1,000,000,000 more than that forecast as personal income reached record levels in 1954 and the first half of 1955. Excise taxes, a lesser source of revenue, yielded \$121,000,000 more than that forecast as retail sales broke all previous records. However, taxes on incomes of corporations brought in \$200,000,000 less than was expected. Credit allowances for earlier losses larger than had been estimated have been given as the reason for corporate income taxes smaller than those forecast.

Treasury receipts in fiscal 1955 were about \$4,350,000,000 less than receipts in fiscal 1954. Receipts from corporate income taxes decreased nearly \$3,260,000,000; receipts from individual income taxes decreased about \$735,000,000.

Treasury expenditures in fiscal 1955 were approximately \$3,300,000,000 less than those in 1954. This reduction was exceeded in amount by the \$4,400,000,000 reduction in expenditures for national security in 1955 as compared with expenditures in 1954.

During the year the Treasury borrowed an additional \$3,114,000,000,\* thereby increasing the total debt subject to statutory limitation to \$273,915,000,000. The Treasury's cash balance decreased about \$900,000,000 during the year to nearly \$5,600,000,000 as of June 30, 1955.

The Treasury's cash expenditures for all purposes exceeded its cash receipts from all sources in fiscal 1955

\*This amount is the increase in the gross public debt during the year. The total debt was \$274,374,000,000 as of June 30, 1955.

by about \$2,100,000,000.† This amount compares with \$152,000,000 for fiscal 1954.

Although progress has been made toward a balanced budget, the fact remains that, even with the benefit of record and near-record levels of income (income taxes yield nearly 75 cents out of every dollar of budget receipts), the Treasury sustained a deficit in excess of \$4,000,000,000 in the last fiscal year. The Secretary of the Treasury recently indicated that the Administration does not contemplate any early substantial reductions in the Federal debt. From his remarks it appears that such reductions may not occur until Treasury surpluses become available through a combination of an easing of international tensions with a resulting lessening of defense expenditures and further economic growth.

However, a balanced budget may not wait on this development. A shift in policy from tax reductions during 1956 to balancing the budget is being urged by some White House advisers, according to recent reports. We should be surprised if the political appeal of tax reductions is sacrificed in a presidential election year, but there apparently would be no other way to balance the budget.

#### *What the Indicators Say*

The percentages of the leading, roughly coincident, and lagging indicators expanding during June, as measured by the method developed by the Institute, were 62½, 100, and 60 respectively.

The *Iron Age* composite price of No. 1 heavy melting steel scrap for the week ended July 19 was \$40.33, compared with \$38.50 for the preceding week and \$26.83 for the corresponding week last year.

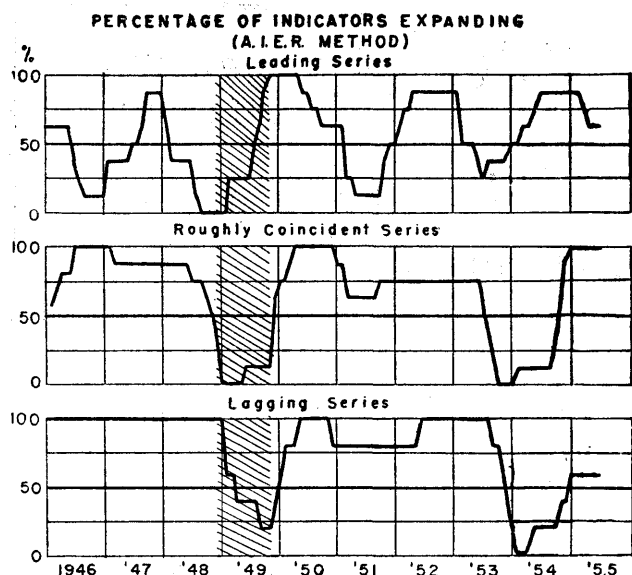
The developments reflected in the accompanying chart continue to support our expectations of further moderate overall gains in business activity.

### SUPPLY

#### *Industrial Production*

Steel-ingot production of 2,284,000 tons during the week ended July 30, as indicated by operations scheduled at 94.6 percent of capacity, compares with

†Receipts and expenditures thus computed comprise the cash budget and include items not in the regular (accounting) budget, hence the discrepancy between the two budgets. An important item of receipts omitted from the regular budget is cash received for the account of retirement funds. Use of this and certain other cash by the Treasury in meeting its current expenditures requires that this cash be taken into account in computing both the cash deficit for the year and the total national debt.



2,195,000 tons during the preceding week and 1,520,000 tons during the corresponding week last year.

The *New York Times* seasonally adjusted index of lumber production was 129.2 for the week ended July 16, compared with 101.0 a week earlier and 74.2 for the corresponding week last year.

Electric-power production of 10,620,000,000 kilowatt-hours during the week ended July 23 compares with 10,440,000,000 kilowatt-hours for the previous week and 9,100,000,000 kilowatt-hours for the corresponding week last year.

Automobile and truck production in the United States and Canada, estimated at 214,100 vehicles for the week ended July 23, compares with a total of 207,300 for the previous week and 130,700 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
<b>Steel</b>						
Operating rate—percent. cap.	96	17	93	82	64	95 <sub>p</sub>
Ingot prodn.—million tons	1.32	.26	1.67	1.51	1.52	2.28
Ingot capacity—million tons	1.38	1.52	1.80	1.84	2.38	2.41
<b>Lumber</b>						
<i>New York Times</i> Index	135	40	107	88	74	129
<b>Electric Power</b>						
Kilowatt-hours—billions	1.73	1.43	5.34	5.46	9.10	10.62
<b>Automobiles</b>						
Vehicles—thousands	115	46	119	160	131	214 <sub>p</sub>

*p* Preliminary

## DEMAND

### Retail Sales

On the basis of sales data reported by the Department of Commerce, we estimate retail sales seasonally adjusted for the first half of 1955 at \$90,600,000,000. This amount is nearly 8 percent larger than that for the comparable period of 1954, and 4 percent larger than that for the first half of 1953.

Durable-goods sales, which characteristically fluctuate more than sales of nondurable-goods, increased 13 percent during the first half of 1955; nondurable-goods sales increased 5 percent. Durable-goods sales reflect increased sales of passenger cars and building materials sold for odd-lot jobs. Nondurable-goods sales reflect an increase of 6 percent in the sale of foods, which accounts for more than one third of all nondurable-goods sales,

and an increase of more than 7 percent in the sales of service stations.

Sales of general-merchandise stores were 5½ and 4 percent larger than they were in the same period of 1954 and 1953 respectively. Included in this group are the sales of the 325 department stores which report their sales monthly to the Federal Reserve Board.

Consumers have been using larger percentages of their income for retail purchases. In 1954 and 1953, 67.3 and 68.9 percent respectively of total disposable personal income was used to buy goods at retail. For the first 3 months of 1955 the percentage increased to 70.1, and an even larger proportion is indicated for the second quarter. Since July 1954 the adjusted monthly total of installment credit extended has increased each month to \$3,091,000,000 for May, when it was 30 percent larger than that for May 1954.

Retail sales totaled \$170,600,000,000 in 1954; in 1953, the record retail year, they were only \$100,000,000 more. If sales of the second half of the year are in the same proportion to sales of the first half as they were last year, total retail sales in 1955 will equal \$179,000,000,000. If, however, sales continue to increase in the same proportion from sales of the corresponding period last year, total retail sales in 1955 will exceed \$183,000,000,000.

*We expect that retail sales in the second half of 1955 will continue to exceed sales of the corresponding periods of the previous 2 years. However, we expect the percentage gain to be somewhat less than that of the first 6 months.*

### Department-Store Sales

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

Period	Percent Change
Week ended July 23	+12
Four weeks ended July 23	+10
Year to date	+ 7

### Mail-Order and Chain-Store Sales

Sales of 41 mail-order and chain-store companies representing a cross section of this kind of outlet were 6 percent larger in June 1955 than they were in June 1954.† Sales for the first 6 months of 1955 were 8 percent larger than for the corresponding months of 1954. These percentages compare with increases in all sales at retail of 6½ percent for June and nearly 8 percent for the first 6 months. Changes in sales of mail-order and chain stores in June and in the first 6 months of 1955 from sales of the corresponding periods of 1954 were as follows, by type of outlet:

Type of outlet	June 1955	First 6 Months 1955
Mail order	+ 8	+10
Variety	+ 5	+ 5
Grocery	+ 7	+ 8
General merchandise	+ 6	+ 8
Apparel	+ 3	+ 6
Shoe	+ 6	+ 6
Drug	+ 3	+ 3
Automotive variety	+18	+17
Men's wear	- 2	+ 3

Source: *The New York Times*

†No adjustment of sales is made for such things as increases in the number of outlets or reporting firms.

## PRICES

### Consumer 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, advanced two-tenths of a point during the month ended June 15 as food prices advanced seasonally and prices of various other consumer items increased slightly. However, the June index was one-half of 1 percent less than that for June 1954.

At mid-June the following components of the index had increased: food, housing, transportation, medical and personal care. The following components had decreased; apparel, reading and recreation.

Primarily responsible for the increase in the food component were higher prices for pork, poultry, fresh fruits, eggs, beef, veal, and lamb. Prices were lower for fresh vegetables, restaurant meals, coffee, and tea. Primarily responsible for the increase in the housing component were higher rents and higher costs of home maintenance and of some housefurnishings. Primarily responsible for the increase in the transportation component were higher prices for used cars and for gasoline. The medical-care component advanced as rates for hospital and professional services increased, and the personal-care component advanced as prices for men's haircuts increased.

The decrease in the apparel component reflected decreases in the prices of women's rayon dresses and nylon hosiery and decreases in the prices of some items of men's and boys' clothing. The decrease in the reading-and-recreation component reflected special sales of sporting goods and toys and lower prices for television sets and radios.

The Bureau reported that during June the weekly "take home pay" of the average factory worker with three dependents was \$70.12, the highest amount for any postwar June and about \$3.60 more than that for June 1954.

*The present outlook for consumer prices seems to be dominated by two opposing forces. On the one hand, manufacturers and distributors are hopeful of advancing prices of their products to protect their profit margins against the inroads of higher labor costs. On the other hand, competition of the retailer for the consumer's dollar appears unabated and even possibly increasing despite record levels of retail sales.†*

†Charles Silberman, in an article, "Retailing: It's a New Ball Game," appearing in *Fortune*, August 1955, discusses certain aspects of retail competition and their effects on store prices. Of

*We continue to believe that, although consumer prices may register irregular, slight advances during the next few months, their general trend will be downward.*

### Commodities at Wholesale

Index	1954	1955	
	July 27	July 20	July 27
Spot-market, 22 commodities	279	277	277
Commodity futures	386	323	325

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.

## BUSINESS

### Business Failures

Our 3-month moving average of business-failure liabilities decreased to \$35,800,000 for May, compared with \$37,300,000 for April and \$40,900,000 for May last year.‡

The total of business-failure liabilities increased during June, a month in which they usually decrease. The June total was \$36,700,000, compared with \$34,700,000 for May and \$41,600,000 for June 1954. However, the number of failures in June followed the seasonal pattern, decreasing to 914, compared with 955 in May and 965 in June last year. Liabilities averaged \$40,100 per failure in June, compared with \$36,300 in May and \$43,100 in June 1954. The increase in failure liabilities reflects a greater concentration of failures among firms having liabilities in excess of \$100,000.

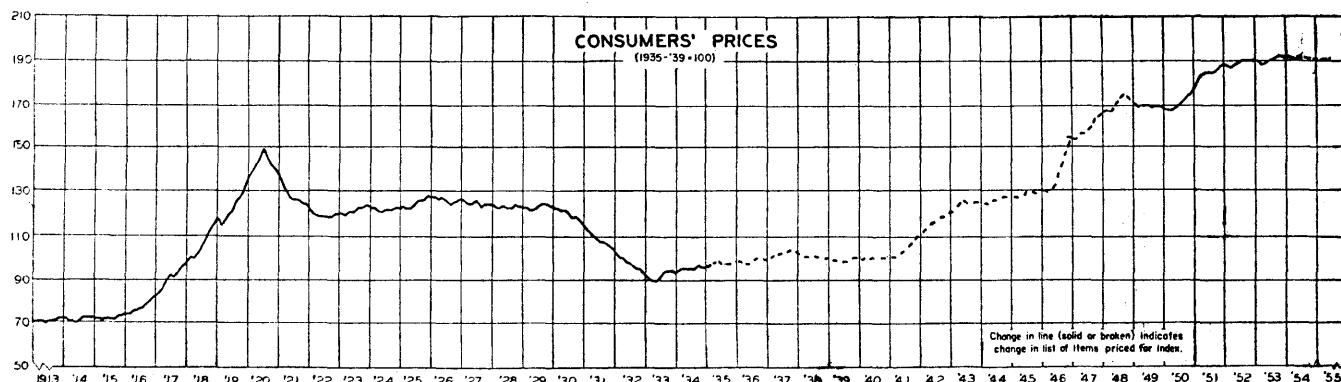
The percentage of all failure liabilities accounted for by industry groups changed from May to June as follows: mining and manufacturing, from 41 to 38; wholesale trade, from 8 to 9; retail trade, from 31 to 26; construction, from 14 to 13; commercial services, from 6 to 14.

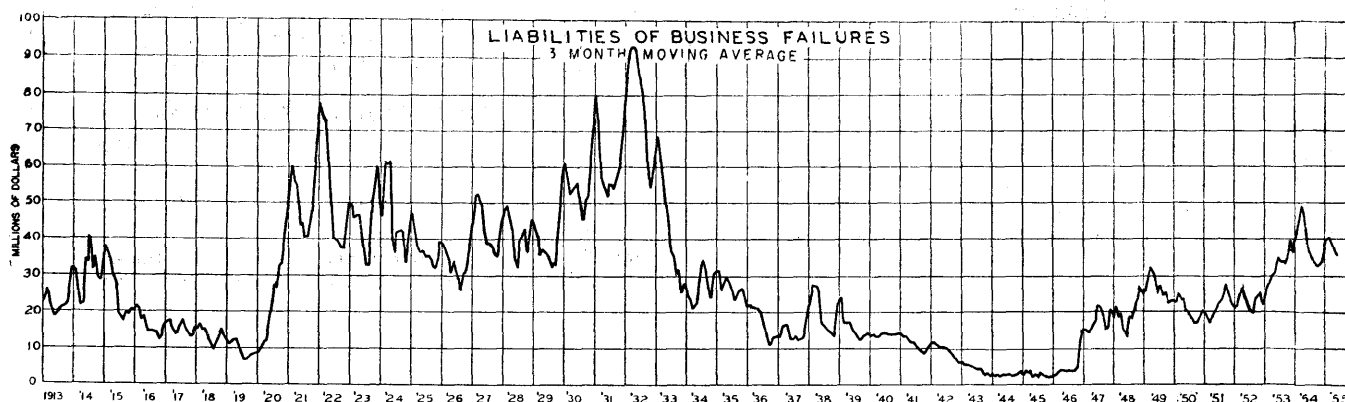
Business failures in June were at a seasonally adjusted annual rate of 41 per 10,000 firms, compared with 42 in May and 43 in June last year.

Dun and Bradstreet report that during June the "failure pattern among retailers varied considerably," that "increases from a year ago in failures among retailers of food, general merchandise, apparel and automobile dealers contrasted with sharp declines among furniture and drug stores."

‡This article is based on data reported by Dun & Bradstreet. Reported liabilities exclude long-term debt publicly held; the 3-month moving average is plotted at the second month.

particular significance, he concludes, is the departure from the single price, especially for many electrical and household appliances.





NUMBER AND LIABILITIES OF BUSINESS FAILURES  
First 6 Months 1954-1955

Business	Number		Liabilities*	
	1954	1955	1954	1955
Mining and mfg.	1,205	1,130	104.5	88.1
Wholesale trade	551	596	26.8	23.7
Retail trade	2,900	2,817	81.9	61.8
Construction	673	649	26.4	37.2
Commercial services	449	434	17.6	17.8
Total	5,778	5,626	257.3	228.5

\*Millions of dollars.

The accompanying table reveals that in the first 6 months of this year, compared with the corresponding period of last year:

1. The number of failures decreased 21½ percent.
2. Only in wholesale trade, as was true last month, did the number of failures increase.
3. The total of all failure liabilities decreased 12 percent.
4. Failure liabilities of firms engaged in retail trade decreased proportionately the most; liabilities of firms engaged in construction increased 41 percent; liabilities of firms engaged in commercial service increased slightly.

The number of failures in the 3 weeks ended July 21 was 600, compared with 610 in the corresponding period last year.

Recent trade reports indicate an appreciable increase in the volume of delinquent consumer accounts turned over to collecting agencies. Although this is an area of credit activity that bears watching for indications of possible future serious deterioration, there is little evidence that the trend has reached a serious point. The latest

record of retail failures is favorable, and reported estimates of rates of increase in the volume of delinquent accounts do not exceed rates of increase in consumer credit outstanding.

At present levels of business activity and credit expansion, statistics of business failures are critical data. However, the volatile nature of these data, which accounts for our plotting them as a 3-month moving average, makes individual monthly changes in the data of doubtful significance. Accordingly, we conclude that the decrease in our 3-month moving average of failure liabilities justifies the belief that, as an indicator of the business outlook, this series remains in a favorable position.

## BOOK REVIEW

*Hungry Generations* by Harold A. Boner  
Columbia University Press, 2960 Broadway, New York 27, New York (\$3.75)

The author of this volume optimistically asserts, "The early success of the Malthusian theory was not due simply to the eager support given it by a privileged class who, having been stripped bare of rational justifications by the philosophers of the eighteenth century, saw in it an almost miraculous restoration of their position. The theory succeeded because its fallacies were so cleverly veiled that it won the honest support of the man in the street and, above all, of the vast majority of professed students of social problems. But no such situation exists today. We still have the privileged groups desperately eager to justify their privileges; but the long debate which is the subject of this book has so thoroughly exposed the blunders of Malthus that no intellectual leadership remains to encourage an attempt to revive them—as witness the fact that they have so long slept undisturbed." However, it seems to us that, if he examined certain economics textbooks now in use as well as certain articles in even the scientific journals during recent years, he would be less confident that the Malthusian notions had lost their appeal.

We think that this book has more than the "... some value as a sort of inoculation against confusion" as Dr. Boner suggests. We are not sure, from the text, whether the author has sufficiently considered the possible alternative explanations for the condition of the poorer classes in Asia and much of Europe as well as in portions of this hemisphere. However, more detailed discussion of that problem would have gone far afield from the main subject. At least, Dr. Boner has provided references and some quotations from others who have explored that aspect of the problem further. The reader may use these for the extension of his own studies.

BUSINESS FAILURES: NUMBER AND LIABILITIES

Month	Number			Liabilities (000 omitted)		
	1953	1954	1955	1953	1954	1955
January	647	867	939	\$23,309	\$29,592	\$37,872
February	691	926	877	27,273	47,774	42,056
March	739	1,102	1,038	31,082	57,280	41,209
April	693	975	903	27,520	42,512	35,968
May	697	943	955	32,789	38,494	34,714
June	817	965	914	32,379	41,613	36,667
July	724	856		39,830	32,230	
August	700	912		28,529	32,582	
September	686	819		33,817	36,381	
October	840	871		37,076	29,000	
November	815	933		36,795	35,067	
December	813	917		43,754	40,103	
Total	8,862	11,086		\$394,153	\$462,628	