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GREAT BARRINGTON MASSACHUSETTS

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Foreign Aid

Although President Eisenhower has declared that he will strive to restrain Government spending in fiscal 1960, he has made it clear that foreign aid will continue to be a keystone of his administration's foreign policy.

Because of this emphasis given to foreign aid by the President and because of the economic complications attendant upon this approach to our international problems, further review and discussion of the subject is appropriate. Readers long acquainted with these bulletins may recall our articles in 1948 concerning the European Recovery Program.

In the *Research Reports* for January 26, 1948, we expressed the view that foreign aid (European Recovery Program) was "one of the most important issues of the postwar years." That "insofar as it is intended to implement the Nation's foreign policies, it is obviously of great significance; but it may be even more important in its long run effects on economic developments both here and abroad." One such effect has been to reduce our capacity to spend in certain vital areas; another has been to weaken the position of the dollar in international trade.

In order to show what the so-called recovery (foreign aid) program involved, in the bulletin for March 29, 1948, we wrote: "This aspect of the problem is more familiar to economists, whose theories and practical work are continually concerned with wise choices among the alternative uses of scarce resources. From the practical point of view, any commodity that commands a price in the Nation's markets is scarce. When unemployed resources of plant, equipment, and manpower are available, additional production of some items does not necessarily involve less production of other goods; but in times like the present, when unemployed resources are at the practicable minimum, aid for Europe must involve the abandonment of alternative uses of the wealth involved.

"The foregoing does not imply that aid to Europe is necessarily unjustified. However, it does imply that the economic aspects of the problem require consideration of the potential alternative uses of the real wealth involved."

Concerning other possible uses of our real wealth, we wrote in the same bulletin: "Among the many alternative uses of the tangible wealth involved, improvement of the Nation's educational facilities should receive consideration. That we now fail to develop the maximum potential of our human resources is widely acknowledged. Probably two or three times as many students as were attending colleges and universities prior to the war could be given education beyond the high school with substantial advantage to themselves and to the Nation. Furthermore, and possibly of even greater importance, many more of the gifted students could advantageously continue their formal educations in graduate schools in order that we may lead the scientific advance.

"Of particular interest is the fact that the relatively high level of education in the United States is a strong bulwark of the national defense."

Although we have not yet developed the maximum potential of our human resources, by education or by other means that require large expenditures, the burden of our foreign aid has contributed importantly to a deteriorating position of the dollar. This development is evidenced in the declining trend of our gold stocks from $24,400,000,000 in 1949 to less than $20,700,000,000

UNITED STATES GOVERNMENT NET FOREIGN AID
FISCAL YEARS ENDED JUNE 30, 1957 AND 1958
(Millions of dollars)

	Fiscal Year	
	1957	*1958*
Total	4,681	4,996
Military aid	2,314	2,519
Other aid	2,366	2,478
Western Europe and dependent areas	1,539	1,259
Military aid	1,200	897
Other aid	339	362
Eastern Europe:		
Nonmilitary aid	3	97
Near East, Africa, and South Asia	1,103	1,357
Military aid	393	627
Other aid	711	730
Far East and Pacific	1,683	1,750
Military aid	626	893
Other aid	1,058	857
American Republics	231	411
Military aid	72	75
Other aid	159	336
Unspecified	121	121
Military aid	25	26
Other aid	96	95

Source: United States Department of Commerce.

currently, notwithstanding increases in the world's monetary stocks of gold during this period. The United States has been a net exporter of gold in each of the 10 preceding years, excepting in 1952 and 1956-57 when crises in international relations contributed largely to the inflow of gold.

As the needs of Western Europe diminished, the European Recovery Program became Foreign Aid and other parts of the world shared increasingly in the Nation's largess. In the fiscal year ended June 30, 1958, nearly three-fourths of the $5,000,000,000 of wealth distributed by the United States under its foreign-aid programs went to Near East Africa, South Africa, the Far East and nearby islands of the Pacific. The total thus distributed in that year was about 7 percent more than that in fiscal 1957, although it was not as much as that expended in fiscal 1956.

Last year's distribution involved a major shift in military aid as deliveries under military grants to the Far East and the Pacific area increased 43 percent from those of the preceding year to a new record, almost equaling those to Western Europe. The latter were still at an annual rate of nearly $900,000,000. Korea, Vietnam, and India, in the order named, were the principal beneficiary countries in South Asia and the Far East.

Although most countries in Western Europe received less aid last year than they did in the preceding year, the United Kingdom, Austria, and Iceland received more. Poland received one of the largest increases ($101,000,000) in nonmilitary aid during fiscal 1958.

Doubtful as was the value of much of the aid to Western Europe, "aid" going to the Orient is of even more doubtful value. The rapid industrialization we are fostering in India and other countries of the Orient is demanding rapid social changes which may well be more disturbing politically than the conditions our aid is supposed to alleviate. Proposals have even been made that our aid to countries thus affected be expanded to include supplying of sociologists to assist their people in adjusting to the sociological changes our aid is effecting.

Partly because of the magnitude of our foreign aid, and in spite of our net exports of gold, foreign holdings of short-term dollar claims against us have continued to increase. Foreign holdings of bank deposits alone have increased more than $500,000,000 since last January 1 to $14,200,000,000. The net total of short-term foreign holdings of dollar claims now exceeds $13,000,000,000, leaving a net gold balance of about $7,500,000,000.

The large foreign-aid grants of the past decade have contributed to what may become an untenable position of the United States dollar in foreign trade, a development we plan to discuss next week.

What the Indicators Say

No further indicator data have been received since those reported last week.

Accordingly, the indicators still point to continuing recovery in business activity.

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The *Iron Age* composite price of No. 1 heavy melting steel scrap, not one of the indicators, was $40.50 per ton on November 25, compared with $41.17 on November 18.

PRICES

Consumer Prices

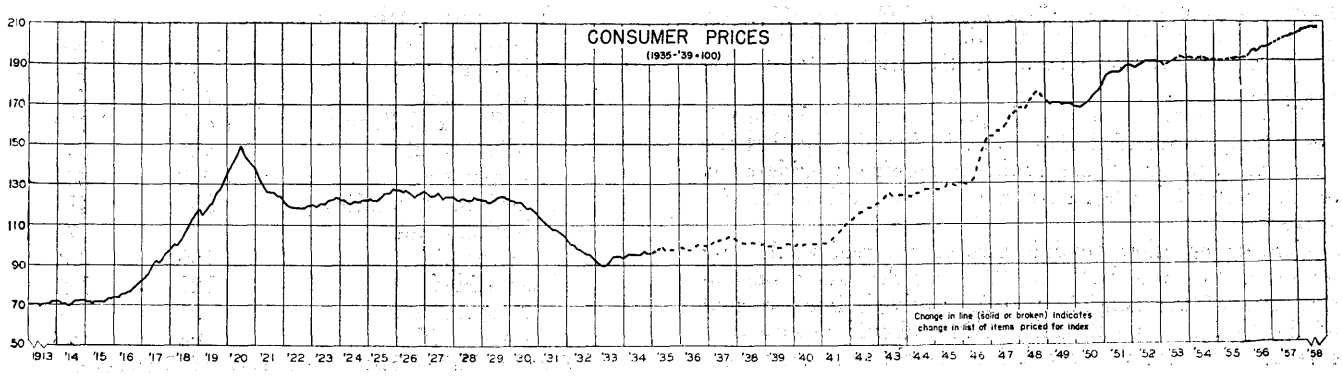
The Bureau of Labor Statistics index of prices of goods and services bought by moderate-income families, known as the Cost of Living Index, was unchanged for the month ended October 15. The index for October was about 2 percent higher than that for October last year.

This is the third successive month of no change in the index, the latest change having been in August, when the index decreased two-tenths of 1 point. Food prices decreased one-half of 1 percent during the month; the greater part of the decrease was attributable to lower prices for eggs, pork, poultry, and apples. Components of the index increasing the most were transportation and medical care. The principal cause of the increase in the transportation component was higher prices for both new and used cars, as the 1959 models came into the market. However, gasoline prices decreased in a number of areas.

For the first time since March 1956, some workers under cost-of-living escalator clauses will take pay cuts. The decrease in the index and its subsequent stability will result in a 1-cent decrease in hourly earnings for approximately 220,000 workers, mostly in the electrical equipment, farm machinery, and transportation industries.

The Bureau of Labor Statistics reports that the weekly average "take-home" pay of a factory worker with three dependents was $76.58 compared with $75.11 for October 1957.

Although prices of services and some goods have edged upward throughout the year, prices of meat have been the principal factor in the changes in the Consumer Price Index this year. Earlier in the year higher meat prices, reflecting reduced supplies of meat, contributed largely to the advance in the cost-of-living index to record levels. Currently this situation is being reversed, and the prospects are that lower meat prices, particularly prices of pork, will tend to offset possible further increases in prices of other things consumers buy.



In general, record supplies of farm products are tending to lower food prices. However, increased costs of processing, packaging, and marketing of foods are absorbing a substantial part of these price reductions with the result that the prices consumers pay for food are not decreasing commensurately with the decrease in prices of farm products.

The outlook for consumer prices during the next several months seems to be for little overall change, with further decreases among prices of food products largely or fully offset by increases in prices of services and nonfood items.

Commodities at Wholesale

Index	1957 Nov. 26	1958 Nov. 19	1958 Nov. 26
Spot-market, 22 commodities	259	270	270
Commodity futures	338	326	322

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.

SUPPLY

Industrial Production

Production of steel, automobiles, lumber, and electric power (1) in the 1- and 4-week periods ended on the indicated dates in the current year and (2) in the corresponding periods of earlier years was as follows:

	1929	1932	1953	1954	1957	1958
Steel						
Ingots—million tons						
Week: November 29	0.95	0.27	1.56	1.48	1.85	2.01*p*
Four weeks: November 29	4.02	1.17	6.53	5.79	7.78	8.05*p*
Automobiles						
Vehicles—thousands*						
Week: November 22	38	13	109	160	184	173*p*
Four weeks: November 22	222	44	504	509	679	603*p*
Lumber						
New York Times Index						
Week: November 15	115	37	122	127	113	125
Four weeks: November 15	124	37	120	126	111	121
Electric Power						
Kilowatt-hours—billions						
Week: November 22	1.82	1.53	8.42	9.32	12.14	12.58
Four weeks: November 22	7.23	6.11	33.64	37.03	47.86	49.60

p Preliminary. * Cars and trucks in U. S. and Canada.

DEMAND

Department-Store Sales

We estimate that the seasonally adjusted sales of the department stores reporting to the Federal Reserve Board were 2 percent more in November than those in October and 4 percent more than those in November 1957. The index is now 6 percent less than it was at its recent peak in August, but it is about 11 percent more than it was at its low point in February.

Our index of department-store prices for October was practically unchanged from that for September and 1 percent less than that for October 1957.

Our index of the physical volume of goods sold in department stores increased 2 percent from October to November, and was 4 percent more than that for November 1957.*

The potential physical volume of department-store sales, as measured by the production of goods sold in department stores, increased 1 percent from September to October and was 7 percent more than that for October 1957.† This index has increased 14 percent since its low point in April.

Sales of department stores during the first 9 months of 1958 were about 2 percent less than those during the corresponding period of 1957. Moderate decreases in the sale of women's apparel and accessories, men's and boys' wear, home furnishings, and basement-store sales were partially offset by increases in the sale of small wares, miscellaneous merchandise, and barber- and beauty-shop services.

Weekly department-store sales have exceeded those for corresponding weeks in 1957 in every week since that ending September 27, and have averaged 4.3 percent more than those of the corresponding weeks in 1957. Upward trends in employment and personal income, as well as in other indicators that point to continuation of the business recovery at a moderate rate, suggest some further increase in department-store sales. Fall stocks of merchandise generally have been somewhat less than those of a year earlier.

Although sales of department stores are trending upward and although the moderate optimism widely expressed in the trade seems well founded, the stores are reported to be purchasing carefully. This policy is said to reflect the top management's determination to avoid excessive accumulation of inventories. The good acceptance reported for women's coats, suits, and dresses for spring tends to confirm the restrained optimism expressed by store managers. One more shopping day between Thanksgiving and Christmas this year than last will aid the stores in achieving a favorable Christmas sales record this year as compared with last.

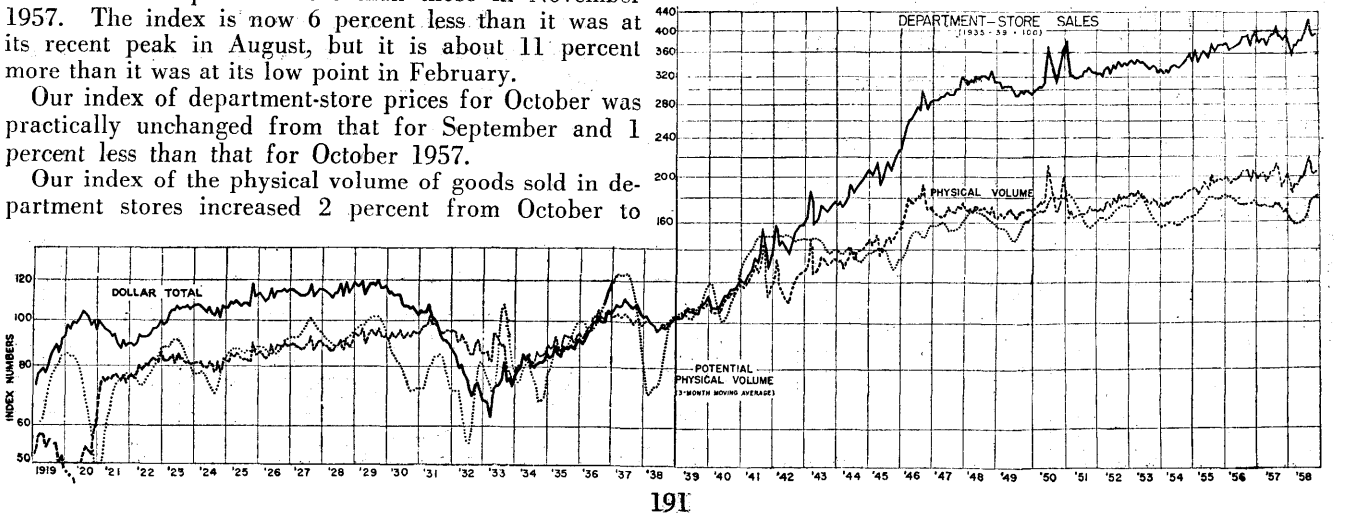
Department-store sales in December 3 to 4 percent more than those in December last year seem to be assured.

Mail-Order and Chainstore Sales

Percentage changes in sales of mail-order and chain-

*The index of physical volume of goods sold is derived by dividing the index of sales by our index of department-store prices.

†The index of potential physical volume of sales is a 3-month moving average of production, centered at the third month to allow for the lag between the production of goods and their receipt at the stores.



store companies in October and in the first 10 months of 1958 from corresponding periods of 1957 were as follows:

	Oct. 1958	*First 10 Mos. 1958*
Mail-order houses	+ 9	+ 1
Variety stores	+ 6	+ 2
Grocery stores	+ 6	+ 7
General merchandise stores	+ 7	+ 1
Women's wear stores	+10	+ *
Shoestores	+12	+ 6
Men's wear stores	− 5	− 7
Automotive variety stores	+14	+ 6

Source: *The New York Times.*
* Less than one-half of 1 percent.

BUSINESS

Business Failures

Liabilities of business failures in October were $47,300,000, about 2 percent less than those in September and slightly less than those in October 1957. Our 3-month moving average of failure liabilities for September was $48,700,000, about 11 percent less than that for August but 7 percent more than that for September 1957.‡ This was the sixth successive month of decrease since the peak of the moving average in March.

There were 1,271 failures in October, about 22 percent more than those in September and 13 percent more than those in October 1957. In October as compared with September, failures were more numerous in every division of industry and trade, the percentage increases ranging from 30 in retail trade to 8 in construction.

The number of failures in the 4 weeks ended November 20 was 1,124, about one-half of 1 percent less than those in the corresponding period last year.

Liabilities per business failure averaged $37,200 in October, compared with $46,300 in September and with $42,300 in October 1957. This was the smallest average in 4 years, except for that in March 1956.

Liabilities of business failures in the first 10 months of 1958 increased about 19 percent from those during the same period last year, chiefly in commercial services, mining and manufacturing, and retail trade. About 11 percent more enterprises failed during the first 10 months of 1958 than did during the same period last year. All divisions of industry and trade shared in this relative increase, ranging from 17 percent in wholesale trade to 4 percent in construction.

As percentages of all monthly failure liabilities, liabilities among the various divisions of industry and trade changed from September to October as follows: commercial service from 4 to 11; retail trade from 29 to 34; wholesale trade from 13 to 15; construction from 16 to 14; and mining and manufacturing from 38 to 26.

Dun's Failure Index, seasonally adjusted and expressed as an annual rate per 10,000 active enterprises, increased from 53.4 in September to 57.4 in October, compared with 51.5 a year ago.

The latest decrease in the 3-month moving average of failure liabilities keeps this series clearly among those suggesting that further gains in business activity are probable.

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

BUSINESS FAILURES: NUMBER AND LIABILITIES
BY MONTHS, 1956-1958

Month	*Number* 1956	1957	1958	*Liabilities (000 omitted)* 1956	1957	1958
January	1,048	1,148	1,279	$ 42,890	$ 54,060	$ 64,442
February	1,024	1,146	1,238	49,200	65,406	65,295
March	1,170	1,336	1,495	42,600	55,833	71,555
April	985	1,175	1,458	41,870	57,103	83,977
May	1,164	1,200	1,341	59,901	52,552	56,246
June	1,105	1,084	1,260	43,013	51,454	61,445
July	1,018	1,059	1,253	48,689	44,299	65,375
August	1,101	1,145	1,127	55,040	43,514	50,765
September	932	1,071	1,039	39,313	45,420	48,103
October	1,158	1,122	1,271	50,004	47,428	47,268
November	999	1,173		39,886	52,899	
December	982	1,080		50,279	45,325	
Total	12,686	13,739		$562,697	$615,293	

BUSINESS FAILURES: NUMBER AND LIABILITIES
BY TYPE OF BUSINESS
October 1957 and 1958

Business	*Number October* 1957	1958	*Percent Change*	*Liabilities* October* 1957	1958	*Percent Change*
Mining & mfg.	214	215	0	11.6	12.1	5
Wholesale trade	99	124	25	7.7	7.0	−10
Retail trade	544	657	21	16.9	16.1	− 5
Construction	176	176	0	8.0	6.8	−15
Com. service	89	99	11	3.2	5.3	66
All businesses	1,122	1,271	13	47.4	47.3	0

* In millions of dollars.

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