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The State of the Union

A President's "state of the Union" message can be most useful if it summarizes the trends of major developments, foreign and domestic, that may be expected to affect the Nation's future. Such major developments can be adequately discussed only as moving sequences of changes from the significant policy choices that determined recent trends to the probable future as well as the present consequences. If the discussion is focused largely on present consequences, on today's problems, the remedies proposed all too frequently involve mere treatment of symptoms without even analysis of, to say nothing of treatment for, the diseased condition underlying the symptoms. Like most "state of the Union" messages in recent decades, President Kennedy's is seriously deficient in this respect as is noted in detail below.

In addition to the fact that his message, like those of his recent predecessors, seems to reflect an absence of deep insight and constructive analysis, President Kennedy's message reveals what we consider a misunderstanding of the Government's basic responsibilities. He referred to the executive and legislative branches of the Government in these statements:

"This week we begin anew our joint and separate efforts to build the American future.

"* * * We are all trustees for the American people, * * *."

Is the building of the American future the job of the Government? Or is the job of the Government to free its citizens of unnecessary restraints so that they, through their own free enterprise, can build that future for themselves? By "trustees for the American people" does the President imply that the people are wards of the state? He asserted that the business recovery began in early 1961 "With the help of new congressionally approved or administratively increased stimulants to our economy, * * *." However, the recovery commenced prior to the enactment of any Kennedy-sponsored legislation or the introduction of new administrative policies. Does the President believe that increased Federal expenditures, which later accompanied the recovery, were its cause?

The President's recommendation of a special tax credit to business to stimulate capital outlays and thereby increase employment reflects the fallacious notion that prosperity can be induced through Government manipulation of incentives. He does not realize, apparently, that if Government policies were focused on enforcing the rules of a free economy and avoiding intervention in free markets, the incentives to employ labor and capital would be far greater than any that might be induced by a tax "gimmick."

Inasmuch as the President's economic advisers are known to be Keynesian economists, it is not surprising that his message revealed lack of understanding of the causes and dangers of inflation (that is, an excessive amount of purchasing media).

The influence of the Keynesian notions was evident in the President's recommendation that he be given authority, subject to congressional veto, to adjust personal income tax rates downward and to accelerate Federal and federally aided capital improvement programs "to slow down an economic decline before it dragged us down." Experience in the 1930's demonstrated that deficit spending is ineffectual under some conditions for the purpose of inducing prosperity and eliminating unemployment. Moreover, the principal economic problems now confronting the Nation reflect the long-continued application of more and more inflating.

The weakened competitive position of American industry in relation to foreign industry is the result of this long-continued inflation, which is a basic influence accounting for the recurring deficits in the Nation's balance-of-payments position with the rest of the world. Ironically, this is one of the problems with which the President expressed special concern. Failure to recognize that an excessively high domestic price level (one result of inflating the purchasing medium) accounts for the balance-of-payments problem apparently has induced the President to suggest remedies for the symptoms rather than for the underlying disease. He attributed insufficient exports to a lack of aggressive foreign selling, lagging industrial modernization, and wage and price increases not justified by increased productivity. No reference was made to the consequences of excessive wage increases sought by labor monopolies nor to the inflation of the purchasing media that makes possible, in fact almost forces, yielding to labor's demands.

At other points the message raised more questions than it answered. For example, why should the urban population, despite its size, be represented by its own cabinet post? Why not a cabinet post for the entire population, or for all consumers? As to the half of the high school graduates lacking funds to attend college, would aid be granted without regard to ability to benefit from a higher education? If ability is made a basis for aid, how about the many facets of the problem of setting standards and measuring ability? As to the proposed pay increase for postal workers as the basis of increased postal rates, what is the reason for believing that pay of postal workers is not commensurate with that for comparable workers in private industry? The President referred to "the good sense and public spirit of business and labor—keeping their total increase in wages and profits in step with productivity" as "our first line of defense against inflation." Aside from the lack of understanding revealed when anyone takes the effects of inflation as inflation itself, such a statement suggests reliance on appeals that not only never have worked in the past but also would require the substitution of administrative or judicial decisions for those preferably made automatically in free markets. The proposed medical aid for the elderly seems to make no allowance for the extent to which that need is being met by such private agencies as Blue Cross and Blue Shield.

We fail to find justification for the President's proposal that Congress authorize the Treasury to purchase bonds of the United Nations. Sale of the bonds is said to be made necessary by the failure of the Soviet Union and other U.N. members to pay their shares of the costs of various military operations carried on by the United Nations. Avowedly, the bonds are to be repaid from receipts of regular dues. However, such dues collected in the past have not been sufficient to meet the expenses of the organization without supplemental assessments. Is there any reasonable prospect that future dues not only will be sufficiently large to meet then current expenses but also that they will be in excess of current needs by enough to provide for retirement of the bonds?

The President's proposal that he be granted authority to negotiate reciprocal tariff reductions could yield benefits to the economy if the power were wisely administered. In principle the step would be in the direction of eliminating Government restrictions on trade, an achievement that of itself would be in the interests of the economy as a whole. However, we are not at all convinced that the powers sought would be used to reduce and as soon as practicable eliminate Government intervention in the Nation's markets.

Perhaps the most critical problem confronting the Nation, that of restoring sound and dynamic economic growth, was barely mentioned. The burden of the wasteful farm program and of other unwise uses of public funds is reflected in the millstone of excessive taxes that hinders the progress of every individual in his efforts to carry his own responsibilities and of every business in its efforts to grow and serve the Nation. Economists in recent years have commented on the "miracle" of West Germany's recovery and continued economic growth. But an even more impressive economic "miracle" seems to be almost unnoticed. That the remnants of a free enterprise economy in the United States still can achieve some growth in spite of the crushing burden of Government intervention and excessive taxes surely is a "miracle" like that of West Germany testifying to the great vigor and adaptability of even a partially free economy. There is every reason to believe that, if unnecessary burdens were removed, the economic growth of the United States once again would be the wonder of the world.

What the Indicators Say

Note: The indicators reported on here are seasonally adjusted.

Among the leading indicators, liabilities of business failures (inverted) increased in December.

Among the roughly coincident indicators, industrial production increased, but retail sales decreased in December.

The indicators continue to forecast business expansion.

SUPPLY

Industrial Production

Production of steel, automobiles, electric power, and lumber (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*	*1957*	*1960*	*1961*	*1962*
Steel						
Ingots—million tons						
1 week: January 13	1.15	0.40	2.52	2.74	1.48	2.30
4 weeks: January 13	3.92	1.24	10.05	10.88	5.07	8.92
Automobiles						
Vehicles—thousands*						
1 week: January 13	96	32	188	214	139	179*p*
4 weeks: January 13	324	125	605	676	487	649*p*
Electric Power						
Kilowatt-hours—billions						
1 week: January 13	1.7	1.6	12.3	14.2	14.7	17.0
4 weeks: January 13	7.4	7.1	47.4	55.5	58.0	65.4
Lumber						
New York Times Index						
1 week: January 6	132	39	95	130	103	104
4 weeks: January 6	141	43	107	132	102	105

* Cars and trucks in the United States and Canada.
p Preliminary.

DEMAND

Department-Store Sales

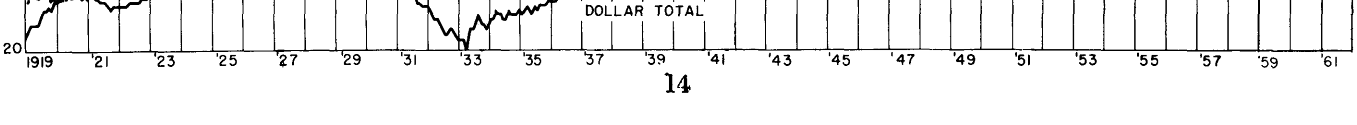
The seasonally adjusted index of the sales of stores reporting to the Federal Reserve banks was 157 in December, a new record, compared with 155, as revised, in November and with 146 in December 1960. Preliminary data indicate a January index at about 152, less than December's but larger than those in all preceding Januarys.

Prices of goods sold in department stores decreased by a quarter of 1 percent on the average from October to November but were estimated to have firmed or increased slightly in December.

Our index of the physical quantity of goods sold in department stores (derived by dividing the dollar sales index by the index of prices) was 1.2 percent greater in December than that for November and 7 percent greater than the index for December 1960. This index also reached its record high in December.

The potential quantity of department-store sales, as measured by the production of goods commonly sold in these stores, increased in November 1.5 percent from the October figure and nearly 10 percent from that in November 1960. The November production level represented a record volume 14 percent larger than that in January 1961, the last trough of this series.

Sales of the reporting department stores totaled 3



percent more in 1961 than the total in 1960. The largest year-to-year increase of 6 percent was recorded for the Boston Federal Reserve district; average 3 percent increases were attained in the New York, Kansas City, and San Francisco districts. Lesser increases of 2 and 1 percent were shown by 7 districts, but the St. Louis district total for 1961 was unchanged from that for 1960.

Departmental sales for the first 10 months of 1961 compare with those for the corresponding months of 1960 as follows: piece goods, household textiles, and small wares, greater than average increases; men's and women's apparel, about average increases; homefurnishings, less than average increases.

The upward surge of department-store sales seasonally adjusted during November and December appears to have continued into the post-Christmas weeks. Many department-store executives expect further increases, at least during the first 4 months of 1962, according to a recent survey.

Continuation of department-store sales at or near recent record levels seems probable for a few months at least, except as sales may be affected by a later Easter this year.

Latest Weekly Data

Sales of department stores reporting to the Federal Reserve banks compare with those of corresponding periods a year earlier as follows:

Period	*Percent Change*
Week ended January 13	−2
Four weeks ended January 13	+7

Retail Sales

Although seasonally adjusted retail sales in December were about $19.0 billion, 6 percent more than those of December 1960, they were slightly less than those in November 1961. Failure of sales to continue to increase through December followed a lagging recovery in retail sales that had been accentuated by marked gains in October and November. Moreover, sales in December, less than those in November, destroyed hopes that the year's sales might exceed those of 1960. Total sales for the year are estimated at $219.1 billion, compared with $219.5 billion in 1960.

Although sales of nondurable goods decreased in 3 of the 10 months following the trough of the recession, they trended rather regularly upward in a characteristic manner, reaching $13.0 billion in December, not quite 5 percent more than those in December 1960. Total sales of nondurable goods in 1961 were about $151.7 billion, 2 percent more than those in 1960. Although sales of durable goods account for only about one-third of all retail sales, fluctuations in this sector account for most of the monthly changes in total retail sales. Not until September last year, 7 months after the recession trough, did sales of durable goods begin the increase expected in the recovery phase of a business cycle. This rebound of durable goods sales extended through November when sales reached $6.24 billion, 14 percent more than sales in August and 5 percent more than those in November a year earlier. December sales, however, decreased to $5.97 billion although they were still 9 percent more than sales in December 1960.

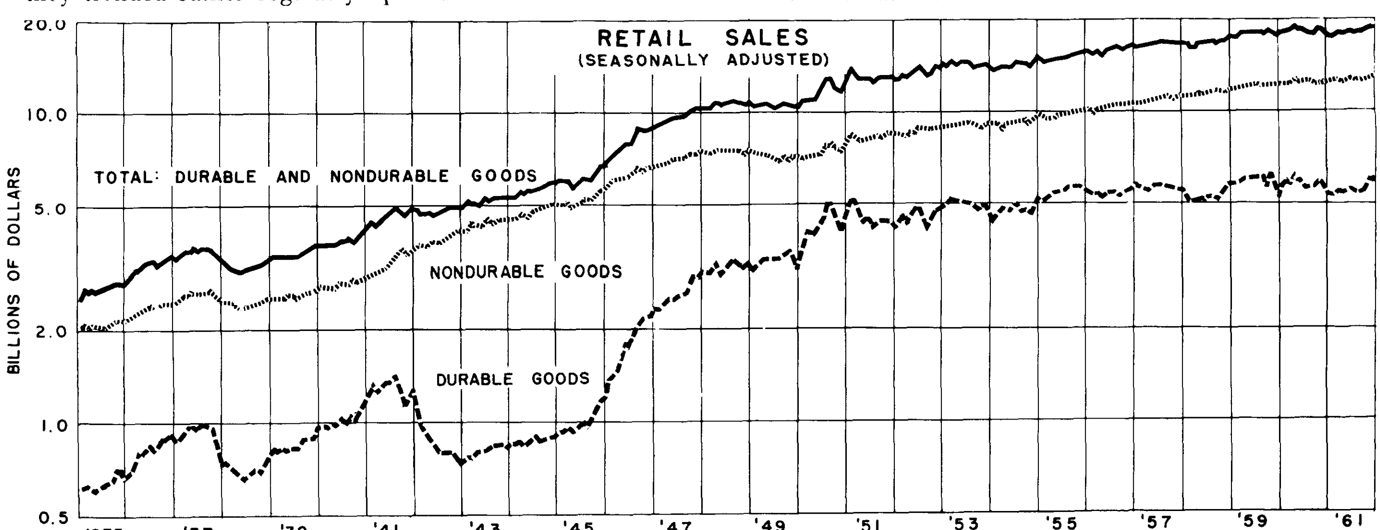
RETAIL SALES IN RECENT BUSINESS-CYCLE RECOVERIES

	*Percent Increase in Sales 10 Months After Cyclical Troughs**		
	1954	*1958*	*1961*
All goods	8.1	7.3	6.1
Durable goods	15.3	14.2	10.0
Nondurable goods	4.2	4.2	4.4

*Increases are measured from 3-month averages centered at the trough months, which were August, April, and February in 1954, 1958, and 1961 respectively.

The accompanying table, Retail Sales in Recent Business-Cycle Recoveries, compares increases in retail sales of all goods, durable goods, and nondurable goods in the tenth month of the current recovery period with increases in the tenth month of the two preceding recovery periods. The similarity of the increases in the two earlier periods, with the increase for nondurable goods being the same for both, contrasts with the deviations in the 1961 period. Although nondurable goods sales increased 4.2 percent in the earlier periods, they increased 4.4 percent in the 1961 period. However, durable goods sales increased only 10 percent from the 1961 trough, compared with 15 and 14 percent from the 1954 and 1958 troughs.

Failure of the marked gains in durable-goods sales last fall to carry through December makes the record of retail sales in this recovery less satisfactory in comparison with the records of the two preceding recoveries. Obviously, the present recovery lacks the vigor of the two preceding, a fact that suggests it may be less in magnitude and duration.



PRICES

Commodity Prices

Index	*1961 Jan. 15*	*1962 Jan. 8*	*1962 Jan.15*
Spot-market, 22 commodities	255	263	263
Commodity-futures	298	313	311
Steel-scrap	$31.50	$37.83	$37.50

Note: The indexes are respectively those of the U.S. Bureau of Labor Statistics, Dow-Jones, and *Iron Age*. The spot-market and futures indexes are converted so that their August 1939 daily averages equal 100. The steel-scrap index is a composite price for No. 1 heavy melting scrap.

FINANCE

*New Capital Issues**

Net proceeds from new capital issues of private corporations during the first 10 months of 1961 totaled about $9.0 billion, 24 percent more than the total during the corresponding period in 1960. Flotations were unusually large in each month of the second quarter of 1961, when they averaged more than $1.4 billion monthly; but from June through October the 4-month aggregate of $3.0 billion was no more than that in the corresponding period of 1960. The increase in our 7-month moving average of new capital issues to an alltime record for July 1961 (April-October average) was therefore attributable to a few unusually large issues during the second quarter.

About 71 percent of all new capital issues during the first 10 months of 1961 was for the acquisition of new plant and equipment, as compared with 65 percent in 1960; 29 percent was for increased working capital, as compared with 35 percent in 1960. This shift in use of proceeds from the liquid to the fixed assets is a development that has characterized the later stages of the recovery phase of most business cycles.

The proportion of the total of all new issues accounted for by manufacturing enterprises increased sharply to 33 percent during the first 10 months of 1961, compared with 20 percent in the corresponding period in 1960. The proportion accounted for by communications industries increased from 11 to 15 percent, primarily because of the $1.2 billion offering of the American Telephone and Telegraph Company in April 1961. The proportions of new issues accounted for by finance and real estate companies and by public utility corporations decreased from 25 to 16 percent and from 28 to 22 percent, respectively, while those of the railroads, extractive industries, and miscellaneous businesses decreased only slightly.

The dollar amount of new capital issues sold in the first 4 months of the second half of 1961 totaled $3,053 million, almost exactly equaling the $3,048 million sold in the corresponding period a year earlier.

Inasmuch as corporate profits have increased at a rate exceeding the recent and expected near-future rates of increase in corporate capital expenditures, we assume that the amount of new capital issues will decrease rather than increase in the near future.

*These include substantially all new corporate offerings in the United States of more than $100,000, whether placed publicly or privately with institutions such as insurance companies or with trust funds; they exclude refundings and issues of investment companies. (Issues of investment trusts, holding companies, and similar organizations are omitted because the proceeds are used for the purchase of securities that have been included previously in the total of new capital issues.)

BOOK REVIEW

Economic Areas of the United States by Donald J. Bogue and Calvin L. Beale
The Free Press of Glencoe, Inc., 640 Fifth Avenue, New York 19, New York ($27.50)

This copiously illustrated volume of more than 1,400 pages fills a void in the literature of contemporary American economic life. It provides precise information about areas and subareas within the national economy for which statistical data and verbal descriptions have been to a large extent inadequate or inaccessible. Heretofore, most such information has been "compiled either for the large and definitely nonregional State units or for the small and multitudinous (3,100) county units."

The work is in three parts. The first describes 13 major economic regions and 124 subregions into which the authors have divided the United States. The second describes the economic areas of each State. The third is an elaborate compilation of basic statistics for the regions and areas with which the greater part of the book deals.

The system of economic area classification and delimitation here developed, as well as the comprehensive statistical tables that are included, should be useful not only to economists but to other social scientists also.

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