Published Weekly by
AMERICAN INSTITUTE *for* ECONOMIC RESEARCH
Great Barrington, Massachusetts

RESEARCH REPORTS

June 17, 1963

Silver Legislation Repealed

On Tuesday, June 4, President Kennedy signed into law a bill authorizing replacement of $1 silver certificates with Federal Reserve notes. The new $1 Federal Reserve notes will not make their first appearance until about October 1964, and approximately 10 years will be required to complete the exchange, according to present plans. The $1 silver certificates now in use have an average life of from 16 to 17 months. Therefore, their replacement as they are retired due to wearing out could be accomplished in much less than 10 years. However, the 25-percent gold reserve requirements for Federal Reserve notes will obligate increasing amounts of the Nation's monetary gold stocks as the new $1 Federal Reserve notes are placed in circulation. Inasmuch as these gold reserves have been dwindling in recent years, issuing the new $1 notes more rapidly apparently is not considered expedient.

Ever since the 1896 defeat of William Jennings Bryan and his presidential campaign issue of bimetallism, inflationist interests have been seeking halfway measures, euphemistically referred to as "doing something for silver." This foot-in-the-door technique has kept alive hopes for eventual bimetallism and more inflation. A series of laws extending from 1933 to 1946 resulted in a requirement that the Treasury purchase new domestically mined silver at a price of 90½ cents per ounce. The Treasury also was required to purchase silver until the monetary stocks of silver equaled 25 percent of the total monetary stocks of silver and gold, valuing silver at $1.29 per ounce and gold at $35 per ounce. Silver certificates were directed to be issued "in a face amount not less than the cost of all silver purchased under the authority of" the Silver Purchase Act of 1934. The former law also provided that, "There shall be maintained in the Treasury as security for all silver certificates . . . outstanding an amount of silver in bullion and standard silver dollars of monetary value equal to the face amount of such silver certificates."

The 1963 silver act represents an important reversal in silver legislation. In addition to permitting replacement of $1 silver certificates, it revokes the silver purchase requirement and repeals a 1934 statute establishing a 50-percent tax on profits from trading in silver. The New York Commodity Exchange has announced resumption of trading in silver futures, suspended since 1934 because of the tax. The silver purchase law was designed to provide a subsidy for silver producers, the purchase price then having been above prices in world markets. Increasing industrial and coinage demands have caused the market price to rise to $1.28 per ounce recently, from about $1.02 a year ago. The latest market price almost matches the monetary value of silver in the silver dollar, which is $1.29 per ounce.

Perhaps technological change, more than the demise of inflationist sentiment, has accounted for the diminished appeal of silver monetization. Present-day purchasing media consist of checking accounts and hand-to-hand currency in a ratio of about 4 to 1. This has antiquated 19th Century theories for putting more silver into circulation based on specious arguments that not enough gold was available to provide for purchasing media requirements.

The doomed silver certificates are Treasury currency, while Federal Reserve notes are a bank-note form of currency issued by Federal Reserve banks. The change-over will be a potential improvement in our purchasing media. Preservation of an independent Federal Reserve System in the future may also make less probable the debasement of this small part of the purchasing media in response to political pressures.

The year 1963 may go down in history as one of decision. The United States has endured much foolishness in the form of silver legislation. No good has been accomplished by having 1.5 billion silver certificates in circulation backed by 1.3 billion ounces of silver. Silver certificates serve as a reminder of unfortunate inflation-

CURRENCY IN CIRCULATION
April 30, 1963
(Millions of Dollars)

Federal Reserve notes (1928 & subsequent series)	29,505
Silver certificates (issued after 6/30/29)	1,829
Subsidiary silver coins	1,759
Minor coin	668
Silver dollars	400
United States notes	314
Paper currency in process of retirement (including silver certificates issued before 7/1/29)	170
Total	34,645

SILVER CERTIFICATES IN CIRCULATION
BY DENOMINATIONS
April 30, 1963
(Thousands of Dollars)

One dollar	1,532,429
Two dollars	1,405
Five dollars	267,067
Ten dollars	42,505
Twenty dollars	323
Fifty dollars	79
One hundred dollars	50
Five hundred dollars	7
One thousand dollars	9
Total	1,843,874

ist episodes in American history.

The question may be asked whether demonetization of silver has any connection with current proposals to eliminate the 25-percent gold reserve requirements for Federal Reserve notes in circulation. There is no evidence of that at present. For many years advocates of the gold standard have been under attack by supporters of silver monetization. The latest silver legislation is in line with long-standing recommendations of those who advocate sound money.

Planned elimination of $1 silver certificates may have been the result of rising silver prices along with increasing silver coinage requirements. Silver prices above $1.29 and $1.38 per ounce would make it profitable for the public to melt down silver dollars and subsidiary silver coins, respectively. Release of Treasury stocks of silver for use in coins makes it unnecessary for the Treasury to buy silver on the open market at the risk of bidding up prices further.

Elimination of the inflationary silver legislation of past decades, although the inflationary effects have been small in relation to the monetizing of Government and other long-term debt, is a step in the direction of a sound money-credit system.

A New Ceiling on the Federal Debt

On May 29 the President signed a bill that increased the legal limit on the Federal debt from $305 billion to $307 billion immediately and to $309 billion for the months of July and August. The Administration probably will ask that an even higher limit be established by Congress for the remainder of the fiscal year that ends on June 30, 1964. The previous $305 billion limit was only a temporary one, and the new limits also are temporary, the so-called "permanent" debt limit being $285 billion.

The bill was passed in the Senate by a vote of 60 to 24 in an atmosphere of frantic urgency after anxious Treasury officials had warned the Democratic leaders there that the debt was on the verge of exceeding the previously established limit. Although this was the ninth time in the past 8 years that Congress approved an increase in the debt limit, more than the usual amount of controversy and publicity attended the legislative progress of this latest increase.

There was a formal "ceiling" on the debt as far back as World War I, when in 1917 it was first $7.5 billion but was later increased. A debt ceiling of $65 billion in 1941 was increased to $300 billion before the end of World War II. In 1946 the ceiling was lowered to $275 billion, at which amount it remained until 1954.

The principal arguments in favor of increases in the Federal debt ceiling have been summarized as follows:*

"1) The administration must have funds to pay for the programs that Congress has authorized. If Congress does not vote sufficient tax revenue, the only other proper source of funds is borrowing.

"2) When the national debt ceiling is tight, the Treasury is hampered in its efforts to manage the debt with a maximum of efficiency and a minimum of cost. There is, therefore, a need for an adequate margin between the amount of outstanding government securities and the ceiling on the public debt."

*These arguments for and against increases in the debt ceiling appear in American Enterprise Institute, *Legislative Analysis: Proposals to Increase the National Debt Ceiling*, Report No. 5, May 9, 1963, pp. 1-2.

The principal arguments against increases in the Federal debt ceiling have been summarized as follows:

"1) Because of various complexities in the appropriation process, Congress is in danger of losing its traditional authority in budgetary matters. A tight debt ceiling provides a check on excessive federal spending and inhibits waste and extravagance. The annual review provided by the debt limit yields possibly the only opportunity for Congress to take a look at the appropriations picture as a whole.

"2) The use of a tight public debt limit focuses attention on the importance of economy in the budget-making process. The use of such a limit will, assert the proponents of a meaningful ceiling, help limit, and perhaps reverse, the long-run upward trend of the national debt."

During the past decade the existence of successively higher statutory limits on the amount of the Federal debt seems to have had little or no effect in restraining Government expenditures and deficit financing. Although in retrospect they may seem to have been no more than a sham to many people, including many members of Congress, they were hopefully regarded as financial barriers that would be broken only for urgent reasons.

A ceiling on the Federal debt serves some useful purpose whenever the growing debt encroaches upon it, and proposals to raise the ceiling receive widespread publicity. At least, a warning is signaled, and attention is focused on the Government's fiscal policies.

What the Indicators Say

Among the roughly coincident indicators, retail sales increased negligibly in May.

Among the lagging indicators, consumer installment debt increased sharply in April, and business plant and equipment expenditures were anticipated to increase during the second and third quarters, after having decreased during the first quarter.

Continued cyclical expansion of business is signaled by the leading indicators.

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:

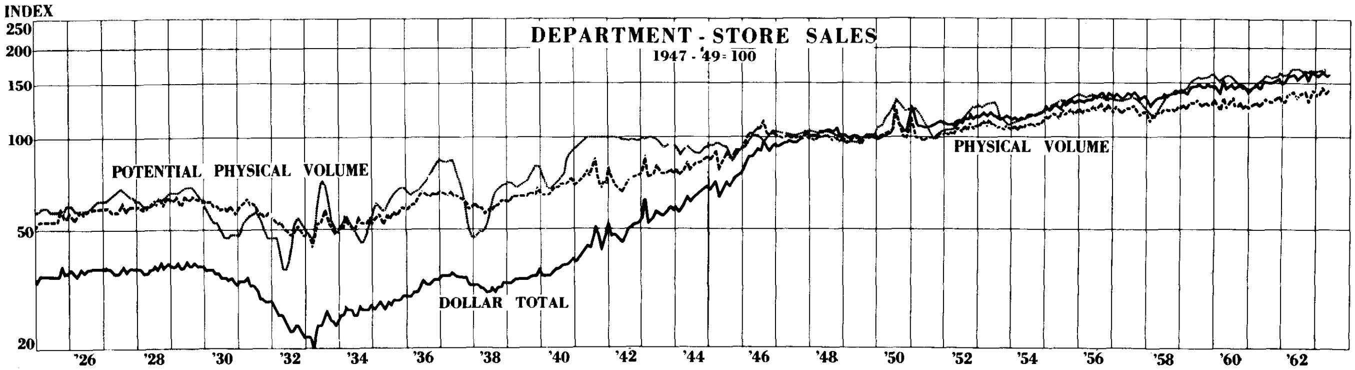
Steel	*1929*	*1932*	*1956*	*1960*	*1962*	*1963*
Ingots—million tons						
1 week: June 8	1.31	0.29	2.38	1.76	1.58	2.51
4 weeks: June 8	5.30	1.32	9.49	7.41	6.48	10.35
Automobiles						
Vehicles—thousands*						
1 week: June 8	125	53	139	174	189	214p
4 weeks: June 8	511	195	528	697	729	791p
Electric Power						
Kilowatt-hours—billions						
1 week: June 8	1.7	1.4	11.0	13.8	15.9	17.4
4 weeks: June 8	6.7	5.7	43.4	53.9	63.6	66.8
Lumber						
New York Times Index						
1 week: June 1	120	39	110	101	111	119
4 weeks: June 1	127	40	111	105	107	111

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

DEMAND

Department-Store Sales

The seasonally adjusted index of sales of department stores reporting to the Federal Reserve banks was 171



in May (1947-1949=100), compared with 170 in April, as revised, and with 170 in May 1962. Recent weekly sales volume has been averaging not more than 1 percent better than that for corresponding weeks last year, although cumulative dollar volume for the year to date has registered an average gain of 3 percent.

Prices of goods sold in department stores increased slightly from March to April, when their average was 1/2 of 1 percent more than that in April 1962. Consumer prices in these categories have been remarkably stable for well over a year.

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 3 percent less in April than it was in March but 1 percent more than it was in April 1962. The May index is estimated to have decreased slightly from that for May 1962.

The potential quantity of department-store sales, as measured by the production of goods commonly sold in these stores, increased 1/2 of 1 percent from March to April and was 1.6 percent more than it was a year ago. The curve of this series has flattened out since mid-1962 and currently reflects cautious new-order volume in apparent expectation of moderate summer sales.

By departments, sales volume in the first quarter of 1963 was approximately the same as that in the first quarter of 1962, as most recently reported for this series. Sales of men's and boys' wear and miscellaneous merchandise departments gained the most (3 percent) in comparison with last year's volume. Piece goods and household textiles also gained relatively (2 percent), and women's apparel and accessories gained slightly (1 percent), but all other departments lost relatively to last year's January through March volume: homefurnishings down (2 percent); and small wares down (1 percent).

Regionally, department-store sales for the first 4 months of 1963, as last reported, varied widely by Federal Reserve districts. As compared with a national average gain of 4 percent for the 4 months, the gain was largest (7 percent) in the Atlanta district and least (2 percent) in the Minneapolis district.

Further increases in sales of department stores are probable before the peak for the current cyclical expansion is reached.

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 June 8	+10
Four weeks ended June 8	+ 3
Year to date	+ 3

PRICES

Commodity Prices

Index	*1962 June 10*	*1963 June 3*	*1963 June 10*
Spot-market, 22 commodities	247	252	250
Commodity-futures	308	320	315
Steel-scrap	$24.50	$26.83	$26.50

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.

BUSINESS

Private Engineering Construction

Our 3-month moving total for advance planning of private engineering construction for the period ending May 30 was $5,427 million, or $4,057 million after excluding the $1,370 million March project of the Pacific Gas and Electric Company. This adjusted quarterly aggregate exceeded that for the corresponding period in 1962 by 52 percent. Most of these projects are expected to reach the contract stage before the yearend.

By construction categories, projects entering the planning stage during the last 3 months included plans for industrial plants estimated to cost $2,055 million, or triple the estimated value of such plans initiated during the corresponding three-month period last year. Although these increases are subject to some uncertainty because of intensified data-collection procedures initiated this year, most of this considerable 3-month relative gain in industrial plant planning is expected to be reflected in third and fourth-quarter increases in the value of contract awards and subsequent construction. (Advance planning in this category usually reaches the contract stage 6 to 9 months later.) A significant relative increase of 59 percent in plans for commercial construction, which would normally be reflected in expanded volume about a year later, indicates substantial improvement of contract volume and subsequent construction about a year from now. Although the lead-and-lag relationship between plans, contracts, and construction is somewhat indeterminate, a 166-percent year-to-year increase in trimonthly plans for mass housing suggests that residential contract and construction volume also will increase or at least will be well maintained throughout the year.

The *Engineering News-Record* index of construction costs, which indicates changes in the weighted and combined costs of common construction labor and of the three basic construction materials, advanced again to an alltime high in May. In that month the index was 404 on the 1935-39 base, or 3.1 percent higher than it was a year ago. The cost index has about tripled since the end of World War II; in this period, the materials cost component has increased about 120 percent while the labor cost component has increased approximately 240 percent, or double the rate of increase in materials cost.

Despite the favorable long range outlook for construction of industrial plants, commercial buildings, and mass housing described above, experience during the first half of 1963 has been clouded by decreases not only in the total backlog of planned projects but also in the rate of flow from the planning to the bid stages. At the end of April the total backlog of private projects in the planning and design stages aggregated $55 billion, a decrease of 5 percent from the total at the end of April 1962. This decrease was traceable to the summer slump of proposed projects last year, which was reversed, however, by a sharp recovery in December and in early 1963.

Tentative forecasts based on these data indicate a 1963 gain over 1962 of 3 percent for total private heavy construction, largely in the commercial and industrial building categories. Among the factors underlying the recent spurt in plans for such future construction are improved profits expectations and the increasing effectiveness of the liberalized treatment of depreciation charges.

Judged by the reports of advanced planning, the outlook appears to be favorable for all major fields of heavy construction.

Ratio of Retail Inventories to Sales

Note: Data for inventories and sales are seasonally adjusted; data for orders are not so adjusted.

The ratio of inventories to sales in April for the department stores reporting to the Federal Reserve banks was 3.1 percent more than the March ratio and 2.0 percent more than that of a year earlier.

Inventories of reporting stores at the end of April were unchanged from those at the end of March but 4.4 percent more than inventories of a year earlier.

Sales in April were 3.4 percent less than those of a month earlier but 1.8 percent more than those of a year earlier. Indexes of inventories and sales of department stores for April and the ratio of these inventories to sales compare with those of the preceding month and a year earlier as follows:

	1962	*1963*	
	Apr.	*Mar.*	*Apr.*
Inventories (1947-49=100)	184	192	192
Sales (1947-49=100)	167	176	170
Ratio: inventories to sales	2.93	2.90	2.99

New orders placed by the stores during April were 5.7 percent more than those placed during April 1962. Orders placed by the stores and unfilled at the end of April were 0.4 percent more than those at the end of April 1962.

The average ratio of inventories to sales has not increased during the past several months. The ratios have been near the high levels typical of cyclical peaks.

BOOK REVIEWS

Environment and Economic Life by Howard F. Gregor
D. Van Nostrand Company, Inc., 120 Alexander Street, Princeton, New Jersey ($8.95)

In this textbook two principle themes are developed. The first involves relationships between man and the various elements of his physical environment; the second stresses relationships between man and his social environment.

As Professor Gregor emphasizes in his Preface, it is not sufficient in a study of economic geography to appraise only the physical environment of each country in terms of the economic advantages and disadvantages that it affords. "* * * the social elements of the environment are at least as important as the physical in helping us to understand why man differs from place to place in his economic activities." Careful attention is given to the cultural reasons for people's economic accomplishments or lack of accomplishments.

The book is well illustrated with maps and diagrams as well as appropriate photographs. It should serve well as a college text, and it can be recommended also for everyone interested in the present day economic life of people throughout the world.

Statistical Yearbook 1961, Statistical Office of the United Nations, Department of Economic and Social Affairs, Sales Section, United Nations, Room 1074, New York 17, New York ($10, cloth – $8, paper)

This thirteenth issue of the *Statistical Yearbook* tabulates a wide range of economic data for more than 150 countries and territories. The tables are supplemented by general and explanatory notes.

Note: A limited number of bound volumes of *Research Reports* for 1962, 1961, and 1960 are available at $15 a volume.