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Coming Effects of Current Events

The past week has been an ominous reminder of those fateful days in the summer of 1914 when the civilized world was rushing headlong toward war. There has been a difference, however, of sufficient importance to set at rest fears of immediate hostilities. Germany has no allies. The time for wiping out the record of the 1918 defeat has not yet come.

Over-savings Again

The theory that over-saving, partly due to a maldistribution of wealth, was the cause of the depression refuses to die. The latest proponent of this discredited theory is no less a person than the Governor of the Federal Reserve Board. He is reported to have told the Committee on Banking and Currency the following:

> "Families with big war and post-war incomes could not spend all the money they had. The only thing left to do was to invest it. By investing it in stocks or bonds or industrial enterprises they stimulated production. Soon more things were being made than could be sold, and the reaction set in."

This idea is plausible in its seeming simplicity and a large portion of the public has been led to accept it. It is the Stuart Chase brand of surface economics so popular with the readers of our "intellectual" magazines.

The National Industrial Conference Board has recently studied the facts in the case by comparing the production of capital and consumption goods during the period 1914 to 1929. Little variation in the relative proportions was found.

It has also been shown that in 1929, when there was an all-time peak in the production of goods in this country, output was still insufficient to provide the living standards desired by most of the population. Limiting new investment in production goods will certainly limit future production of consumers' goods.

One would think that the most elementary reasoning would convince the over-saving theorists of their error. They claim that savings are a reduction of consumer purchasing power and in addition make possible greater production when invested in new plant facilities. Why does not the slump come when the savings are being made and invested? By the time the new plants are in production, there are presumably more wages paid to employees, or larger dividends, or other payments which add to consumer purchasing power.

The over-saving fallacies have likewise been exposed by the studies made in connection with the Harwood Index of Inflation. Statistics from unquestionable sources prove that the new investment in capital goods during the boom period was financed in large part through credit inflation rather than by means of savings. There was an actual and very great deficiency of new savings during the decade of the 1920's. But all these facts and figures carry no message, apparently, to those who have become fascinated by a plausible theory.

It is for this reason that Mr. Eccles is a dangerous man. His notions that a redistribution of incomes is fundamentally different from a redistribution of wealth and his wholly naive conceptions of what is sound commercial banking prove that he is one banker, at least, to whom the lessons of the depression have meant nothing.

The European Currency Situation

Weakness in the currencies of the gold bloc countries, especially of the belga which has resulted in the resignation of the Belgian cabinet, has brought to the fore the dangers of an international currency war. Ever since the devaluation of the dollar and the acquirement by the Treasury of its huge stabilization fund, it has been within the power of this country to force any other nation off the gold standard, if that were desired. Furthermore, the war scare in Europe has weakened the position of the gold bloc countries because the leader of the group, France, may be forced to curtail payments of gold in order to conserve her reserve for war purposes.

General abandonment of the gold standard by those nations of the world which have thus far maintained it might mark the beginning of a senseless and demoralizing race to depreciate currencies. Of course, it would ultimately become clear that no nation can gain by such practices and stabilization as a means to self-preservation would be forced.

The United States Should Stabilize

As a matter of fact, there is not the slightest excuse for the United States to continue longer with questionable currency. This country has ample gold to meet any conceivable demands under the worst possible circumstances, and much benefit would result from final stabilization.

Even drastic depreciation of all other currencies in the world would not place the United States in a permanently unfavorable situation. In the first place, there would be a tendency for capital to flow to this country, seeking a haven of refuge in a stable currency; and, in the second place, any advantage gained by the exporters of other countries would be temporary only.

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It is often forgotten that in the long run the cost of living within a nation will rise sufficiently to offset any degree of depreciation of the currency. This means that internal wage costs will rise, thereby increasing the selling prices which must be obtained for the country's exported goods. History proves that this rise in the internal cost of living may even exceed the rate of depreciation of the currency in terms of foreign exchange, so that in the later stages of a currency war, all countries concerned would be losing norml trade advantages.

It would mean a great deal to the future welfare of the world if the United States would stabilize promptly and disavow any plans for future tinkering with the monetary unit. It is fairly obvious that the internal economic situation would be greatly benefited thereby, and there could be only temporary losses in foreign trade from following this procedure.

The Public Works Bill

Passage of the $4,800,000,000 relief or public works bill has been a practical certainty from the beginning. So long as funds can be obtained on this scale with little objection from the public it would be an unprecedented act for any political party to neglect the opportunity. Then, too, the advocates of "pump-priming" are no doubt sincere in believing that expenditures at this rate will restore the long sought prosperity. In fact, this is the precise rate of spending prescribed by the leader of these money "doctors," John Maynard Keynes.

It will require a substantial period, through the next elections at least, to actually spend this enormous sum. Thereafter, the necessity for continuing a discredited experiment may not seem so great to a president whose primary aim can no longer be his own re-election.

Where Has the Relief Money Gone?

Continued rising tendencies in demand deposits of the nation's banks has led this organization to make a survey of the distribution of this large increase. According to the New Deal plans this addition to the country's purchasing power, which has been due in large part to Government spending, should be found broadly distributed.

Data are not available to ascertain accurately the distribution of these additional deposits. However, there are certain indications that these funds have not remained long in the hands of those to whom Federal payments were originally made.

Although the large urban banks of the country, having deposits of $100,000,000 or more comprise 41% of the total of all licensed banks in the nation, 52% of the total gain in deposits during 1934 occurred in this group of banks. This suggests that there is a tendency for the concentration of money in the hands of the larger institutions of the country.

In making a tabulation of the cash holdings of large insurance companies whose reports for 1934 are now available it is found that, on balance, there has been a substantial increase of cash on hand, and in the case of many large industrial companies there has been an increase in cash with a corresponding reduction of inventory. The number of the latter for which figures can now be obtained is small, but if these samples correctly indicate the destination of the increased demand deposits it is clear that a principal result of the Government's spending program has been to better the current position of many businesses. Although this may clear the road for more substantial progress later, it is not the result visualized by the "pump-priming" advocates.

Is Deflation in Prospect?

Recent weakness of commodity prices has again raised questions in the minds of some market commentators as to whether we are to have another deflationary period of serious proportions. It should be noted that most commodities which have suffered price declines have been those of which this country has an exportable surplus. As was pointed out in our bulletin of March 11, the decline in the pound is the result of an unbalanced condition in the interchange of goods between the United States and the United Kingdom and of the advantageous trade situation which we now enjoy with the Dominions.

Any decline in commodity prices here would tend to offset England's advantage from declines in the pound and a temporary downward trend might follow. At the first sign of price weakness in this country, however, there would be an immediate clamor for Federal action to bolster up prices again.

Efforts on the part of the Administration to keep domestic farm commodity prices above world prices will probably be continued in spite of the dangers inherent in those efforts. A permanent loss of a large share of our export market for this class of farm products is the price we apparently must pay for another lesson in the fundamentals of economics.

Supply, Demand, and Prices

The defeat of all attempts to cut down the President's work relief program guarantees a continuation of Government spending for some time to come. While we question the wisdom of these large expenditures they bring to retail merchants a volume of trade which might be temporarily decreased if a more moderate program were adopted. That the Government will be able to distribute $400,000,000 a month has been questioned, but the rate of expenditure will perhaps be somewhat accelerated as the 1936 presidential campaign begins.

Supply

The two primary indexes of supply, electric power output and steel production, showed little change during the week. Comparisons with activity a year ago are favorable in the case of electric power output, the rate being 4.7% above the corresponding week of 1934. In the case of steel, production is now at about the same rate as a year ago.

Demand

An increase amounting to $185,000,000 in the checking account deposits of reporting member banks of the Federal Reserve System for the week ending March 18 is an indication of the rate at which purchasing power is being augmented. The effect of this expansion of purchasing power has been and will continue to be a stimulation of demand for goods.

Prices

Some recession in wholesale commodity prices occurred last week. Although further weakness might result from currency unsettlement abroad, any pronounced declines would in all probability be the signal for counterbalancing cuts in the gold weight of the dollar. We believe that the long term trend of commodity prices is still definitely upward.

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