AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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WEEKLY BULLETIN

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The United Nations Charter

The General Assembly provided by the Charter of the United Nations is similar in unimportant respects to our Congress or England's Parliament. However, it has no authority to enact laws (other than its own by-laws), and in general its powers include merely the right to make recommendations. The General Assembly has not even this right with respect to matters being handled by the Security Council.

It is the Security Council provided by the Charter that has all the real authority, primarily because the Security Council has limited control over the one element of national sovereignty that the United Nations are now ready to relinquish. The Charter provides that member nations shall make available military, naval, and air forces at the call of the Security Council, in accordance with agreements to be made individually with that agency. These forces may be used as strategically directed by the Military Staff Committee of the Security Council.

There are five permanent members of the Security Council: the United States, Great Britain, Russia, China, and France. Six additional members of this Council are elected by the General Assembly. Seven affirmative votes are required for action by the Council, *including concurrence by each permanent member.* Thus it is apparent that any one of the five permanent members can prevent action by the Security Council. This is an obvious and very real weakness of the Charter, and may well be of inestimable value to the instigator of the next world war.

The Security Council also has the authority to call upon all members of the United Nations for the application of economic sanctions. Presumably, most of the nations would act as called upon, and this would be a weapon of substantial effectiveness in many instances.

Other agencies are provided for by the Charter, but only time will tell whether they will ever become effective instruments of the United Nations. Inasmuch as they lack real authority, their actions can be made effective only if custom eventually gives them a power and prestige not provided by the Charter.

The Charter is *not* a Constitution of the United States adapted to international use. Those who have been looking forward to "One World," to an international organization to which all men of good will can give their loyalty, will be disappointed. Essentially, the Charter does no more than give limited police powers to the five great nations. As expressions of good intentions, the hopeful and high-sounding phrases found throughout the Charter may serve a useful purpose, but the time is apparently not yet ripe for a world government, even of extremely limited powers.

Nevertheless, we consider the Charter a creditable achievement and a great forward step. The ballyhoo to be expected will no doubt greatly overrate it, but we believe that it does offer the possibility of postponing the next world war for a second generation.

"No Inflation Coming!"—?

The discussion that follows is based on a book that asserts most emphatically there is no need to fear inflation; the author argues that we are faced not with inflation but with a drastic deflation in the immediate postwar period. This publication[1] has apparently had a wide distribution, inasmuch as we have received several questions regarding various points made by the author.

Mr. Baxter has somewhat disarmed critics of his exposition by writing in a lighter vein and by providing many amusing, or at least striking, cartoons throughout the text. One is not always certain when he intends to be taken seriously, but we shall confine our comments to certain features of his discussion where we feel certain that he was not intending to be humorous.

It is first necessary to record an interesting and perhaps illuminating difference in point of view. Mr. Baxter speaks of the country as being "overwhelmingly optimistic" and regards himself as a pessimist; in other words, he apparently would regard inflation as a desirable eventuality. It is our view, however, that inflation is very much to be feared, and that it is a highly undesirable present condition and an increasingly alarming future possibility. We would consider that anyone who looks forward to inflation as a development to be optimistic about was looking at the world "through the looking glass" and probably would reach some Alice-in-Wonderland conclusions.

Mr. Baxter claims to be familiar with the views of "orthodox economists," and this familiarity seems to have bred in his mind no little contempt. Unfortunately, his condemnation of such individuals is so unbalanced and, in some instances, downright false

[1] "No Inflation Coming," by William J. Baxter.

that one fears he has more contempt for them than familiarity with them and their work.

For example, he alleges that the publication of Mr. Roosevelt's statement to the effect that a leading economist said the United States could stand a Federal debt of $70,000,000,000 convinced the economists of the country that there must be a lunatic in their midst. He continues: "For according to orthodox economists, we were bound to have wild inflation if the Federal debt ever reached that amount."[1] Now, Mr. Baxter may know of some individual economists who held that opinion, but we doubt that any representative group of the orthodox economists, such as for example the Economists' National Committee on Monetary Policy, ever held or published such views. In this and in several other instances, Mr. Baxter could have made his point much stronger if he had quoted the individuals to whom he presumably referred, or if he had at least mentioned them by name.

It may well be that there is involved a different use of words such as those in the phrase, "orthodox economists." At a later point,[2] Mr. Baxter does identify one "orthodox economist" by name. Surprisingly enough, he is John Maynard Keynes of England. We say "surprisingly enough," because, if there is one thing that John Maynard Keynes is noted for, it is lack of orthodoxy; he takes a pride in it, in fact. Apparently, Mr. Baxter does not realize that he is using "orthodox" in what can only be called a most unorthodox manner.

However, his criticisms of economists as a group are not important to the subject under discussion. If he had been more careful in differentiating between the irresponsible panacea peddlers, many of whom are now feeding at the public trough, and the relatively few able scientific workers in the field of economics, his contribution in this respect would have been more worthwhile.

It is an interesting fact that nowhere in the entire publication does Mr. Baxter trouble to state what he means by inflation. At one point, there is an implication that he would approve of a definition something like "more money than goods," but in the criticisms of several groups of economists, he fails to discuss some of the fundamental fallacies involved in the so-called "inflationary gap," as it has been calculated by OPA economists,[3] and he also had no comments on the difference between time deposits and demand deposits, insofar as their availability for use as purchasing media is concerned. This portion of the discussion leaves the reader with a vague impression that the author has no clear-cut understanding regarding what is money in the first place and what inflation is in the second place.

In Chapter II,[4] Mr. Baxter briefly reviews the century and a half of American economic history. According to him, "Panics and depressions come as regularly as the rising and setting of the sun, with each of these economic catastrophes being more severe than the previous one." This will be important news to such economists as Wesley C. Mitchell, the father of business-cycle studies in this country. His and other careful studies show conclusively that panics and depressions do not come with the regularity of the setting of the sun and that each has not been more severe than the one preceding, but that there has been much variation in both respects.

[1] Page 9.
[2] Page 57.
[3] Page 10.
[4] Page 17.

This surprising blunder is followed by two statistical stumbles that force one to assume that Mr. Baxter did not permit his research organization to review the book before publication. In comparing the 185,000,000 people of Russia with the 135,000,000 in the United States, Mr. Baxter argues that the increased life span of the average American during the past three decades has in effect made our population equal to that of a country much larger than ours. He apparently completely overlooks the fact that the Americans alive today include those whose life span has been increased as a result of medical discoveries and advances during the past three decades.

In a later paragraph, he argues that medical science has lost ground rapidly when concerned with the medical problems of businessmen and investors of forty-five years of age or more, because heart disease has become a more important cause of death than tuberculosis was before the First World War. Apparently, the statistics have confused him, and he has understood them to refer to the percentages of mortality rather than to the percentages of deaths. Although the percentage of deaths attributable to heart ailments today is much higher than that now attributable to tuberculosis, this is in large part because the conquering of such diseases as tuberculosis has greatly reduced the number of deaths in given age groups of the population.

It is Mr. Baxter's contention that, "The purchasing power of cash will be determined by the engineers and not by either the bankers or the city machine money controls." He makes much of the point that mass production and the technological advance will govern the prices of goods regardless of anything that may be done with money. He cites numerous instances of lowered production costs resulting from mass-production techniques and other developments. These are interesting, but, to say the least, they present only one side of the picture. If, as Mr. Baxter so firmly asserts, supply and demand govern prices, some consideration must be given to the media through which people make known their demands, especially inasmuch as the availability of these media to a substantial extent governs the possible magnitude of such demand.

In the few months since Mr. Baxter's booklet was published, shortages have developed that he apparently did not foresee. In several places, he emphasizes that there is "an enormous flood of food everywhere,"[1] and at another point[2] he discusses the increased production of various agricultural products and, among other things says: "To assure you on a few more items, there has been within this same period increases of 24.6 per cent in tobacco (to smoke, of course)" and so forth. Many people who are unable to obtain the better meats today and their customary smokes would be glad to know where all these surplus items have disappeared to.

At another point, he discusses the appearance of shoddy merchandise as a replacement for what had ordinarily been available.[3] Such deterioration of quality

[1] Page 43.
[2] Page 55.
[3] Page 53.

is only one of the more obvious means of raising prices, and it is unquestionably one of the effects of the inflationary progression that is now well along in the United States. Similarly, the disappearance of the better meats and many other items from the customary channels of trade is also evidence of inflation's progress as well as OPA ineptitude.

At another point,[1] Mr. Baxter argues that, in addition to the miraculous production of war requirements for the United Nations, the United States "threw in for good measure the biggest civilian buying spree in civilian production of our entire history." This is simply not so. Production available for civilian use, per capita, has been at the lowest levels of recent history for nearly two full years, not far from the lowest point reached in 1932. It is surprising to find that this situation is news to the International Economic Research Bureau.

Mr. Baxter makes much of the fact that the banks, generally speaking, are in much more liquid position than in normal times and that this situation is in contrast with that of industrial companies in general. Unfortunately, some of the facts he has used are seriously in error. For example, he asserts[2] that, of all banks in the country, approximately one-quarter of their resources consists of cash. The assets of all active banks in the United States on December 30, 1944 totaled $152,947,184,000. Cash in vaults was only $1,801,370,000. Deposits with the Federal Reserve Banks, which at least had some gold backing, totaled approximately $14,260,000,000. It would seem therefore that, rather than one-fourth in cash, slightly more than 10 per cent of the assets was cash. (This of course disregards interbank deposits, which can hardly be considered cash from the viewpoint of the general public.)

Mr. Baxter's conclusions regarding the general run of industrial corporations likewise seem to be seriously in error. The Federal Reserve Bulletin for April 1945 (page 333) reports an increase of more than $15,000,000,000 in the checking accounts belonging to domestic business concerns during the period December 1941 to January 1945. Of this amount, approximately half represented the increase in checking accounts owned by manufacturing and mining corporations. On page 329 of the same Bulletin, there is a table showing the wartime changes in the composite balance sheets and income statements for nearly two thousand manufacturing and trade concerns grouped by industry and asset size of business. The evidence here directly contradicts the whole general character of Mr. Baxter's assertions regarding the financial status of industry in general.

Turning then to specific cases, Mr. Baxter contrasts the affairs of J. P. Morgan & Company with the financial position of American Car and Foundry Company. He overlooks altogether the fact that J. P. Morgan & Company's liabilities are in terms of dollars and that the firm's desire for a relatively liquid position may be so that they can meet their responsibilities by supplying dollars on demand if the inflationary progression, now well along, leads to a flight from the dollar with resulting frantic demands by depositors.

The figures used with respect to American Car and Foundry Company appear to be seriously misleading, and, in addition, we are unable to find them in the usual statistical manuals. The data that we have clearly indicate that the net current assets of American Car and Foundry Company have increased by more than sixty per cent since 1940. It is true that the company's tremendous war business has been accompanied by distortion of the usual current-asset ratio, but we are unable to find any justification for Mr. Baxter's statement, "If this company were called upon to pay its current creditors, it could only satisfy 73 per cent of the demand."

After first arguing that our capacity to produce is so great that the engineers and technologists control prices, Mr. Baxter then argues that we are now forced to maintain an expensive international "cop" and that the inevitable result will be "a lowered standard of living."[1] The question then arises: If we can produce so much, why cannot part of the surplus products that he talks so much about be used to support the international "cop" rather than take the materials from the American standard of living. This part of the argument simply does not make sense.

Mr. Baxter also argues that our own tremendous productive capacity will be supplemented by imports from the rest of the world. In this connection, he refers to the United States as "the richest country in the world and the world's one great creditor nation." We therefore quote briefly from the April 1945 bulletin published by the National City Bank of New York: "To many people, the information that this country is no longer 'the world's greatest creditor nation' but on balance of foreign assets and liabilities not even a creditor nation at all, doubtless comes as a surprise." It must be awkward indeed for the experts in Mr. Baxter's International Economic Research Bureau to be thus surprised regarding developments one would expect them to be thoroughly familiar with.

We do not mean to imply by the foregoing discussion that there are no correct statements in Mr. Baxter's book. On the contrary, there are several, including some denunciations of political and social trends that seem to us sound and well taken.

Furthermore, the general warning that there may be a severe deflation should not go unheeded, because the eventual aftermath of the present inflationary progression is almost certain to be either a severe deflation or more devaluation of the dollar, and the possibility of an uncontrolled inflation should not be ignored. There is a whole flood of inflationary purchasing media to go over the dam and under the bridge before that deflationary aftermath comes, if it does come rather than more devaluation or an uncontrolled inflation.

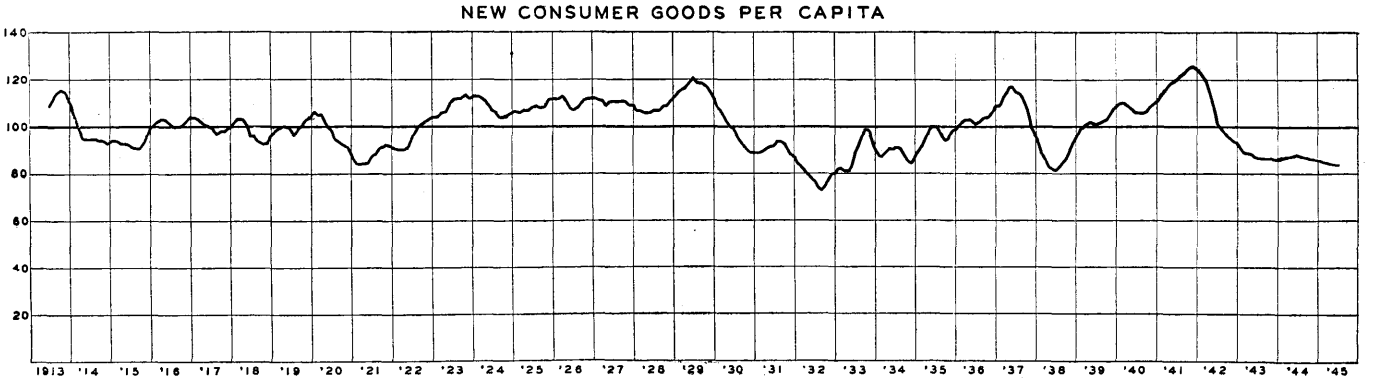
BUSINESS

The Trend of Commercial Failures

The number of commercial failures during May was smaller than the number recorded during April, but the liabilities involved were more than double the total in April when a new low level in liabilities of commercial failures was established for the period during which figures have been available. The number and liabilities of commercial failures reported by

[1] Page 62.
[2] Page 65.

[1] Page 82.



Dun & Bradstreet during each month of the past two years and during the first five months of 1945 are shown in the following table.

COMMERCIAL FAILURES, NUMBERS AND LIABILITIES

	Number of Failures			*Liabilities of Failures (000 omitted)*		
	1943	*1944*	*1945*	*1943*	*1944*	*1945*
January	458	120	80	$5,515	$1,708	$5,883
February	422	132	66	4,163	3,108	1,557
March	410	96	85	7,282	1,460	3,880
April	362	131	90	3,523	3,524	980
May	281	148	72	2,550	2,697	2,208
June	265	110		6,076	1,854	
July	203	91		3,595	3,559	
August	227	77		2,905	1,054	
September	124	75		1,488	4,065	
October	169	74		3,785	3,819	
November	155	75		2,402	3,008	
December	145	93		2,055	1,804	
	3,221	1,222		$45,339	$31,660	

New Consumer Goods per Capita

The Institute's index of new consumer goods per capita for June is 84.3 per cent of estimated normal. This is only slightly lower than the May index of 84.4 per cent. The current index is the lowest for the war period, but the decline this year has been moderate and appears to be culminating. For example, last month the production of consumer goods was unchanged at the level that prevailed in May. The reason for the small decline in the index for June is explained by its structure. It is a six months' moving average plotted at the sixth month to allow for the normal time required for goods to reach the hands of consumers.

The decline in the index during the past year, small though it has been, may appear to be inconsistent with the trend of retail sales, which has been generally upward during this period. However, it should be remembered that reports of retail sales, such as are prepared by the United States Department of Commerce and by the Board of Governors of the Federal Reserve System, are based on the dollar volume of sales, which does not afford a satisfactory indicator of the physical volume of goods available to consumers during a period such as the present when commodity prices are rising and when there are drastic changes in the type of goods that remains available to civilians. The index of new consumer goods per capita is based on the physical volume of goods produced, and no data expressed in dollars are included.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced 2½ points last week from 89 to 91½ per cent of theoretical capacity. *The Iron Age* summarized the current situation in the steel industry as follows: "In months to come the national steel ingot rate is expected to be more erratic than at any time since the war began. The approach of warm weather has already made itself felt with more of the same effect to come. The absolute necessity for long postponed repairs to steel mill equipment will be another factor tending towards a lower raw steel rate."

	1929	*1932*	*1937*	*1938*	*1944*	*1945*
Per Cent of Capacity	94.0	22.0	70.0	24.0	92.0	91.5

(Latest 1945 weekly data; corresponding week earlier years)

Although the electric-power industry generated more kilowatt-hours last week than it did in the preceding week, the increase in production was less than seasonal, and the adjusted index declined fractionally.

	1929	*1932*	*1937*	*1938*	*1944*	*1945*
Billion Kilowatt-Hours	1.71	1.46	2.20	1.98	4.33	4.36

Lumber production increased last week, and the seasonally adjusted index advanced from 88.6 to 89.7 per cent of the 1935–1939 monthly average.

	1929	*1932*	*1937*	*1938*	*1944*	*1945*
New York Times Index	126.8	41.9	97.0	61.2	110.1	89.7

Demand

The dollar value of retail sales in the calendar year 1944 was 65 per cent larger than it was in the prewar year 1939. During this same period, the country's total income payments increased 121 per cent. The relative increases in these two figures shows that there was a considerably larger proportion of incomes in 1939 devoted to purchases in the retail markets than there was in 1944 (58 per cent in 1939 and 44 per cent in 1944). Such a change in more normal times would indicate a waning in demand for goods. Under wartime circumstances, the change is accounted for by several factors. The two most important of these are (1) the disappearance of goods desired by the public from the civilian markets, and (2) the absorption of a much larger proportion of income payments by tax collections.

Prices

Movements of the sensitive wholesale commodity prices were irregularly lower last week. The Dow-Jones Index of Commodity Futures closed at 100.81 on June 21 and at 100.22 on June 28.