

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

GREAT BARRINGTON

MASSACHUSETTS

WEEKLY  
BULLETIN

October 8

1951

## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *An Economic Experiment*

Readers may recall that in our publication *The Counterrevolution* we discussed the relationship between "Individual Freedom and Land Reforms." We remarked that, "fortunately, Denmark and New Zealand provide excellent examples of the basic principles of land reform," that "we might well study the situation in Denmark and New Zealand," and that "the lessons we should learn would have the added advantage that they could also be applied here in the United States when we finally realize how badly we need to apply them." The passing of a recent law by the Pennsylvania State legislature permits the first large-scale application in the United States of an important phase of such elementary land reform, the taxation of land values exclusive of buildings or improvements.

For some time now, Pittsburgh and Scranton (the two "second class" cities in Pennsylvania) have taxed improvements at half the rate at which land values have been taxed. This method of municipal taxation was made possible by act of the State legislature in 1913. Gradually, under the "graded tax plan" thereby permitted, these two cities shifted a portion of their taxes from improvements to land values until the tax rate on improvements reached the lowest level permitted by the law, a rate equal to 50 percent of that on land.

The new law, which was passed unanimously by the State Senate and by an overwhelming vote of the State House of Representatives, is applicable to the 47 "third class" cities in the state. (Pennsylvania has one "first class" city, Philadelphia; two "second class" cities, Pittsburgh and Scranton; and its remaining 47 cities are "third class.") All of these "third class" cities now are permitted to adopt separate assessments of land and buildings, and no limitation on the ratio between land taxes and improvement taxes has been fixed. Conceivably, under the new legislation, a city could raise its entire municipal revenue from taxes on land values alone, with all buildings or improvements completely exempt from taxation.

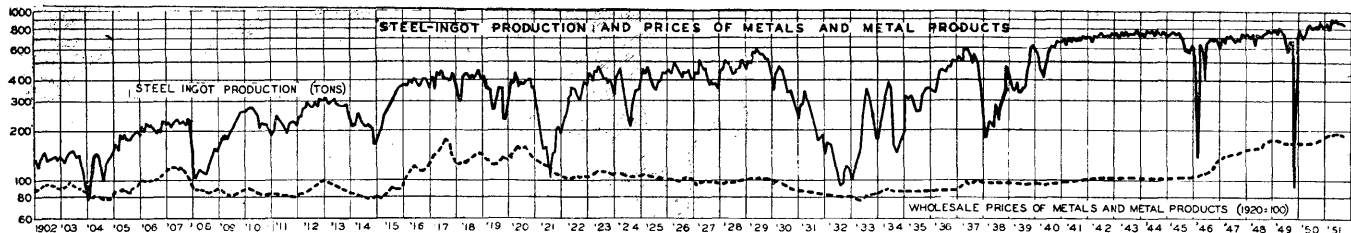
Although this manner of taxation has been tested in parts of Denmark, New Zealand, and Australia and has been effected in South Africa and several Canadian communities, only a few isolated attempts have been made in the United States to encourage such a tax system. In Denmark not only are local authorities permitted to

shift taxes from improvements to land, but there is a national tax on land. New Zealand also has national and local taxes on land values alone. Throughout large areas in Australia, in New South Wales, Queensland, and Victoria, local and state taxes are raised from land values and not from improvements. In the Transvaal of South Africa, most if not all revenue is derived from land-value taxation. The Canadian cities of Lethbridge and Edmonton in Alberta and Saskatoon and Regina in Saskatchewan all have partial exemption of improvements from real-estate taxation, ranging from a tax on 66 2/3 percent of improvements to only 30 percent of improvements. Three of the more important experiments made in the United States, apart from those in Pittsburgh and Scranton, have been in California and in a few small communities in Alabama and Delaware.

The experiments made in other countries have indicated some of the benefits that can be expected. Absentee owners of land who are thus required to pay taxes equal to those of landowners making profitable use of similar areas of land soon are encouraged to put their land to use. Speculation in land is greatly discouraged, and the construction of new buildings and other wealth-creating improvements is fostered. New industries are encouraged, and increased opportunity for employment is created. To a degree, special privileges related to land monopoly are effectively reduced or eliminated.

Of course, much remains to be accomplished before the effects of the new law will be ascertained. The law is permissive, not compulsory. Implementation of the new tax system is now a matter for each city council. However, in view of the examples provided by Pittsburgh and Scranton and the enthusiastic nonpolitical approval of both the Senate and House of the Pennsylvania legislature, widespread adoption of new tax rates would not be surprising. Officials who have specifically endorsed the bill include the mayors of Allentown, Beaver Falls, Butler, Clairton, Greensburg, Sharon, and Titusville. Mayors of several other prominent cities definitely have indicated a friendly interest.

*Thus the groundwork apparently has been laid for the first large-scale test in the United States of the partial application of an economic reform that was advocated in this country 70 years ago by Henry George, one of the world's great social philosophers. In these days of more and more economic controls and governmental formulas for economic security and well-being, it is refreshing to learn of an attempt to apply the principles advocated by*



a man who perhaps was the most sincere and thoroughgoing proponent of economic freedom. The doctrines of Henry George have been ignored by many orthodox academic economists on theoretical grounds. Therefore, we shall watch with great interest the economic experiment that is under way in Pennsylvania. Developments there during the next few decades may well give the public in general, and economists in particular, scientific evidence of major economic and social significance. The Pennsylvania experiment may prove to be the first effective attack in this country against both special privilege and the counterrevolution within Western Civilization.

## SUPPLY

### Industrial Production

Steel-ingot production, scheduled at 102.6 percent of capacity for the week ended October 6, 1951, was 1 percent more than that in the preceding week and was 6 percent more than production in the corresponding week last year.

	1929	1932	1937	1938	1950	1951
Percent of Capacity†	85	18	71	48	101	103 <sup>p</sup>
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	1.93	2.00
Production (Million Tons)	1.17	.27	1.07	.74	1.95	2.06

Automobile and truck production in the United States and Canada during the week ended September 29, 1951, was estimated at 115,319 vehicles, compared with a revised total of 135,015 vehicles during the previous week.

	1929	1932	1937	1938	1950	1951
Vehicles (000 omitted)†	83	14	44	25	187	115 <sup>p</sup>

Electric-power production in the week ended September 29, 1951, increased to 7,101,794,000 kilowatt-hours from 7,013,950,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1950	1951
Billion Kilowatt-Hours†	1.82	1.50	2.28	2.14	6.50	7.10

Lumber production in the week ended September 22, 1951, increased. *The New York Times* seasonally adjusted index was 1 point above that for the preceding week but was 12 points below that for the corresponding week last year.

	1929	1932	1937	1938	1950	1951
<i>The New York Times</i> Index†	121	36	85	101	118	106

†Latest weekly data; corresponding weeks of earlier years  
p=preliminary

### Steel-Ingot Production vs. Prices of Metals and Metal Products

Output of steel ingots and steel for castings during September established a record for the month at 8,450,000 tons, 3 percent less than August output but 3 percent more than that during September last year.

Output during the third quarter of 1951 is estimated to have been approximately 25,850,000 tons, 6 percent less than the 27,590,000 tons produced during the second quarter. The operating rate during July, August, and September averaged slightly less than 99 percent of theoretical capacity, compared with an average rate of

101 percent during the second quarter. The lower rate of operations during the summer months apparently was attributable to the usual seasonal factors.

Steel-ingot production during the first 9 months of 1951 totaled 78,123,000 tons, 9 percent more than that during the corresponding period of 1950 and 15 percent more than that during the corresponding period of 1944, when the wartime peak was reached.

In spite of the present near-record level of steel production, Director of Defense Mobilization Wilson declared recently that he was "shocked" at the prospects of steel production during the first quarter of next year and urged the steel industry to increase scheduled output by 1,000,000 tons during the first quarter and by 2,000,000 tons during the second quarter. He also called for a 6-month advance in steel-expansion schedules.

*The Iron Age* states, "The steel industry will produce the million tons requested by Defense Mobilizer Wilson for the first quarter 1952." However, the trade journal then adds that this prediction is based on three assumptions: (1) strikes will be avoided; (2) industry will be permitted to proceed on the expansion program as scheduled; (3) no major shortages of raw materials, such as scrap, occur.

The National Production Authority's recent limitation of structural-steel allocations for the steel industry may prevent the industry from proceeding with its expansion program as scheduled. The 89,468 tons of structural steel allocated to the steel industry, according to *The Iron Age*, are only "51 percent of the 174,957 tons necessary to maintain the expansion program at current levels." The shortage of structural steel already has forced a moratorium on the Government's issuing of certificates of necessity for the 5-year amortization of new plants.

Even if the expansion program somehow is continued as scheduled, a scrap shortage may prevent the steel industry from achieving the 1952 production goals. Ordinarily, large inventories of scrap are accumulated during the summer months, because collection of scrap during the winter is especially difficult. However, the present level of scrap inventories is unusually low; some mills are reported to be operating on a "hand to mouth" basis (using scrap directly from freight cars).

The critical scrap shortage has prompted senior executives of the Nation's steel companies to organize an extensive campaign intended to increase scrap deliveries to the mills. Industrial scrap-mobilization committees are being organized; and the Army and the general public, especially housewives and Boy Scouts, are being urged to participate in the drive. In addition, new sources of scrap, including the Korean battlefields and Government ships sunk in "relatively shallow waters" during World War II, are to be exploited.

*Steel output during the remainder of 1951 is expected to remain near capacity levels; consequently, total 1951 production may exceed 100,000,000 tons. The outlook*

thereafter will depend to a large extent on the success of scrap collections and on the ability of the industry to maintain its plant and equipment in working condition.

#### Prices of Metals and Metal Products

The wholesale price index of metals and metal products was relatively unchanged during the first half of September at a level slightly below the all-time high reached in April.

On several occasions in the past, decreased demand for capital equipment and durable consumers' goods (the principal finished-steel products) has been preceded or accompanied by decreases in the prices of metals and metal products. Extensive curtailments of steel production accompanied or followed soon after the declines in the prices of metals and metal products that occurred in 1900, 1907, 1912, 1919, 1923, 1929, 1934, and 1949.

Fluctuations in steel-scrap prices may be of even greater significance than changes in the prices of metals and metal products. Not only major curtailments of production but also the minor recessions in steel activity since 1900 have either been preceded or accompanied by declining prices for steel scrap. However, official prices for scrap have remained at the OPS ceiling prices since February; consequently, this price index is of little significance at present.

*We see no reason to expect lower prices for steel scrap for some time to come. Presumably, prices of metals and metal products generally will be sustained during the next year or two by the demand for armament, which is world-wide.*

## DEMAND

### Department-Store Sales

We estimate that the seasonally adjusted September index of department-store sales (based on dollar value) decreased more than 3 percent from the August figure reported by the Federal Reserve Board. (The August figure was nearly 3 percent greater than the July index.) September sales were 16 percent less than the all-time highs reached in July 1950 and January 1951 but were 5 percent more than the 1951 low reached in March.

Our preliminary August price index of goods sold in department stores increased nearly 1 percent to an all-time high. Consequently, the August index of the physical volume of department-store sales increased only 2 percent. (Our physical-volume index is derived by dividing the dollar-value index of sales by our price index.) The August figure was 8 percent below that of August 1950, when the scare buying attributable to the Korean War was under way.

The August index of the potential volume of department-store sales decreased 3 percent. The potential-volume series, which is based on the production of goods usually sold in department stores, reflects the estimated physical volume of goods available for sale in department stores. Although the present trends of the poten-

tial- and physical-volume series do not yet provide a clear indication of recent changes in department-store inventories, preliminary data from the Second Federal Reserve District indicate that relatively little change occurred in August.<sup>1</sup> If the gap between the two series widens during September, as seems probable, we should assume that department-store inventories decreased during the month.

Detailed records of the seasonally adjusted sales of all retail stores indicate that August sales by durable-goods stores increased 26 percent. Sales by nondurable-goods stores decreased 1 percent. The largest increases were in the sales of housefurnishings, automobiles, and automotive parts. August chain-store and mail-order sales increased approximately 2 percent after seasonal adjustment.

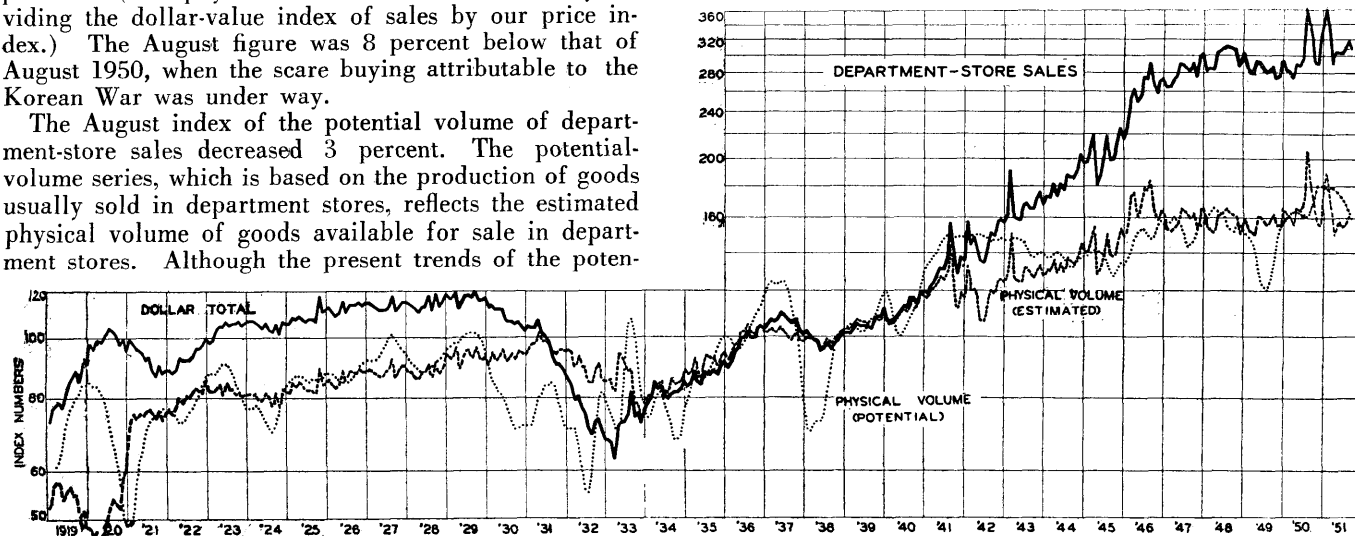
Although retailers in general are reported to be confident that sales will increase as usual during the coming fall season, according to *The New York Times*, "Sluggishness of hard-goods sales was still a main cause of uncertainty, and optimism tended to center more on soft goods, clothing, staples, and some housewares. \* \* \* Most stores are planning some aggressive promotional activities in the pre-Christmas period."

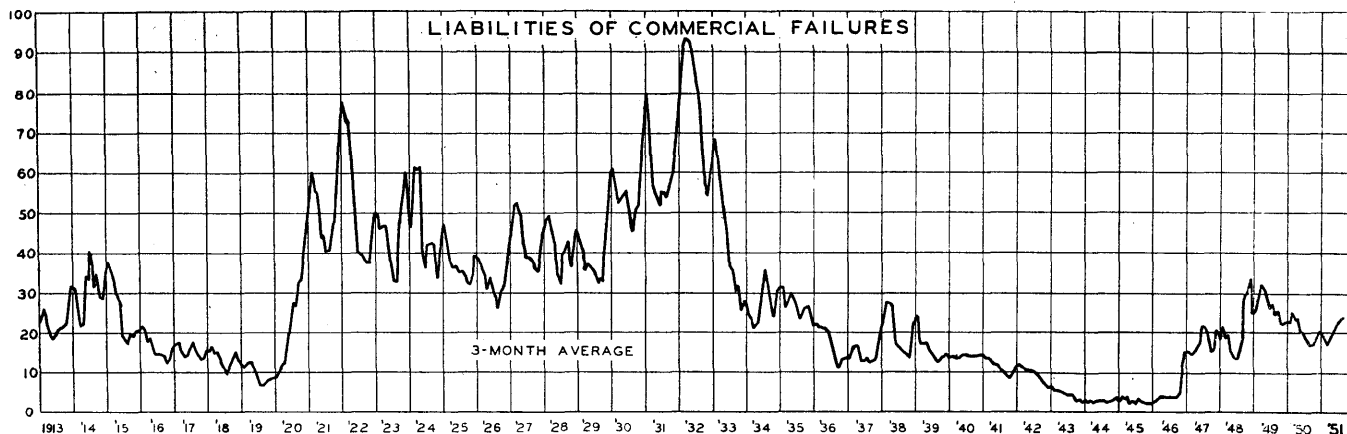
Because of the erratic fluctuations of department-store sales last year, comparisons of weekly sales with those of the corresponding weeks of 1950 may be misleading. In order to help readers interpret more accurately the week-to-week reports, we have calculated that during October an average weekly percentage sales gain of 5 percent compared with sales during the corresponding weeks of October 1950 will maintain the seasonally adjusted index at the September level.

The increase in installment credit during August, which was the largest gain since September 1950, may have been responsible in part for the August sales increase. Apparently the change was attributable to the easing of installment credit terms on August 1.

A possible spur to department-store sales during the

<sup>1</sup>Our hypotheses relating this series and the physical-volume series are as follows: (1) if the potential series is above the physical-volume series and the gap between the two series is widening, inventories are increasing (September 1936 through June 1937, for example). (2) If the potential series is below the physical-volume series and the gap between the two series is widening, inventories are decreasing (September through February 1934, for example).





next several weeks will be the fear of the higher excise taxes that are included in the new Federal tax bill soon to be passed. Higher excise taxes are expected on liquor, cigarettes, gasoline, automobiles, household appliances, and several other commodities.

Although increased taxes may tend to reduce consumer demand for goods during the next several months to some extent, department-store sales probably will remain near present high levels unless substantial deflation occurs.

#### Latest Weekly Data

Department-store sales for the period ended September 29, 1951, were 2 percent more than sales in the preceding week and were 2 percent more than sales in the corresponding week last year.

### PRICES

#### Commodities at Wholesale

(August 1939=100)	1950		1951
	Oct. 4	Sept. 27	Oct. 4
Spot-Market Prices (28 basic raw materials)	326	329	334
Commodity Futures Prices (Dow-Jones Daily Index)	385	388	388

### BUSINESS

#### The Trend of Commercial Failures

The liabilities involved in commercial failures during August totaled \$26,400,000, an increase of 25 percent from the July figure and the largest total since March 1950. Primarily responsible for the August increase were failures involving liabilities of more than \$25,000. The number of failures involving liabilities of from \$25,000 to \$100,000 was the largest thus far this year.

The number of failures in August was 678, compared with 665 in July and 787 in August a year ago. Although there is no exact ratio between the number of failures and the amount of liabilities involved, changes in one series often are reflected in the other. During 1951, for example, both the number and the amount of liabilities involved increased and decreased in the same months, albeit not at the same rate. During recent years the average amount of liabilities involved per failure has been as follows: \$29,700 in 1951; \$27,100 in 1950; and \$33,300 in 1949.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of commercial-failure liabilities. The July average increased 4 percent and was 25 percent above that for July 1950. The upward trend that began in October 1950 and was

interrupted from December through March 1951 apparently has been resumed, temporarily at least.

(Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosure, voluntary withdrawal from business with known losses to creditors, enterprises involved in court action such as receivership and (since June 1934) reorganization or arrangements that may or may not lead to discontinuance, as well as businesses making voluntary compromises with creditors out of court.)

According to *The Commercial and Financial Chronicle*, "Manufacturing, construction, and commercial service were the major industry and trade groups to report an increased number of failures in August." More detailed data for earlier months indicate that liabilities involved in failures of retail and wholesale trade outlets reached peaks in May and June respectively. Manufacturing and mining failures, on the other hand, increased from \$5,000,000 in June to a peak of \$7,800,000 in July, a 56-percent increase. Apparently the effects of an excessive accumulation of retail inventories, after extending back to the wholesale level, have now reached the manufacturing level.

We have mentioned previously that the *inverted* series of liabilities of commercial failures is one of the earliest indicators of cyclical changes of business activity; the series usually leads cyclical peaks of general business activity by an average of 10½ months and leads cyclical troughs by an average of 7½ months. The present status of the inverted series of commercial failures does not yet suggest that the present minor business recession is about to end. (However, because of the rise in industrial-stock prices since June and the leveling off of wholesale commodity prices in August and September [both of which also are leading indicators], there is some reason to believe that the end of the current minor curtailment of activity is not far distant.)

If the recent overstocking of goods at all levels of trade and industry already has been reflected in the commercial- and industrial-failures data, we should expect the present upward trend of liabilities to be short lived. Presumably the acceleration of defense production will make it easier for many firms on the border line of survival to obtain a fresh lease on life. However, this development is by no means assured as yet.

American Institute for Economic Research is a non-political, non-commercial organization engaged in impartial economic research.