*American Newsletter*

# Recession or Disinflation?

AMONG the recent events of importance the two most significant are:

(i) The Federal Reserve Board relaxed control over instalment buying credit early in March,

(ii) With effect from March 30, 1949 the Federal Reserve Board cut the margin required for stock purchases from 75 per cent to 50 per cent. This followed the reduction from 100 to 75 per cent effected from February 1, 1947.

Both these steps taken by the Board, "in the light of the credit situation", are considered by American businessmen to be an admission that "inflation is a dead duck" and that the tide has turned or was about to turn. The businessmen are perhaps right in drawing this conclusion from the Board's action because, as they state, while the Government is talking of anti-inflation drive or what they call "stabilization" programme, the most competent monetary authority in the country has deemed it fit to relax controls on credit expansion. Considering the high inflationary potential of instalment selling on the American economy, which led to severe restrictions being imposed upon it during the war and in the post-war years by the Federal Reserve System, the relaxation of these restrictions has naturally been interpreted in business circles to mean that the monetary authorities, unlike the Administration, have realized the uangers of continuing restrictive measures. The reduction of margin on stock purchases is considered to be an even clearer admission that what is required to-day is not a stabilization programme to halt the upward price spiral but devices to ease the credit situation, in time, to prevent the likely emergency of a depression.

In fact Mr. Emil Schram, President of the New York Stock Exchange, had repeatedly asked lor lowering the stock margin requirements, a demand which has now been met. It has not. however, satisfied business interests.

Last week end the leading business economists,—they are quite a prosperous community in the States, vocal and by no means outcasts,—including the economic advisers to the U.S. Steel Corporation, Standard Oil Co., General Motors, Mutual Life Insurance Co. of New York, economists employed by the Chicago Meat Packers and by the Western Electric Co., etc. and others, like the chief economist of the National Association of Manufacturers and the Director of the U.S. Chamber of Commerce Research Department, met in a conference in Washington. "We want to let down our hair," they said, and "talk over our aches and pains,—economic-—that is." The conference did not come to any decision, nor was it convened for that purpose.

I believe that the general sense of the conference was best conveyed by the spokesman who said that "most of us now expect more of a slump than when we came to this meeting." Just before the meeting, the Federal Reserve Board's index of industrial production had dipped in February to 189 per cent of the 1935-1939 average. This was a decline for the third consecutive month, from 195 in October—November. Department store dollar sales had also registered a

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drop of 4 per cent for the week ending March 19 compared with the corresponding week in 1948. To these indicators, the conference added the following:

(1) Prices were falling and more price cuts were on the way. "Fresh strawberry prices dip as 1949's first big auction gets underway".

"Ford Motor Co. may reduce prices in 1949", Henry Ford II, President, stated. Subsequently Fords did announce a cut in prices.

"Price cuts have been announced in serval other lines, e.g. Westinghouse Electric Co., American Smelters, two storage battery companies, Philadelphia Dairy Companies (on their ice cream products,) all these have reduced their prices."

The well known firm of Kaisar and Fraset has reduced the price of cars.

There is a rate war between two leading gramophone record producers, viz. Columbia and RCA Victor. Pennsylvania producers have cut down coal prices. Four well known steel firms, viz. the Republican Steel Corporation, Carnegie—Illinois Steel Corporation, The National Tube Co. and E.I. Dupont de Nemours & Co. have announced price reductions on their products.

These instances can be multiplied. It should, however, be clearly understood that there has been no precipitate fall in *liny* line as yet, which should cause real anxiety.

(2) Costs are yet comparatively rigid. "How to pare costs to meet increasing price competition is a problem uppermost in many minds."

(3) "Curtailment in investment plans is increasing" . . . .

(4) "Expectation of lower business profits was widespread."

In view of these various indications, the captains of industry, financiers, the stock exchange, wholesalers and various other business leaders are insistent that the Administration should realise the utter futility of going ahead with its stabilization programme and, instead, take proper measures, *in time,* to check a possible repetition of the great depression. All these interests are sharply critical of Dr. E. G; Nourse—Chairman of the President's Economic Advisory Council who, as I wrote last time, says that what is happening at present is desirable as it is just a process of "disinflation". Dr. Nourse still maintains that the "country is now in a *mild* adjustment period. Our underpinning is sound". He even hints at "possibilities" of further inflation; another round of wage increases, short crops or increase in Congressional appropriations beyond the amount the President has asked for could give a "renewed push", in that direction.

What the Administration is worried about is that the present uncertainty should not give rise to panic. "We are still trying to stabilize our economy," the Secretary of the U. S. Treasury, Mr. Snyder told U. S. newsmen, "we are reaching the outer fringes of our goal." There is going to be "continued prosperity" and recent developments were a "healthy" adjustment. Several other Government economists also take the Nourse-Snyder line.

Arguments advanced in favour of the theory that U. S. economy is well insulated against the sort of recession that followed World War I is, by now, familiar and need no repetition.

Nevertheless, it is very difficult to predict the course of events in the coming months. The unemployment figures in the next few months will give some definite indication. In conclusion I" may add that if the Federal Reserve Board takes one more step to ease the credit situation, a step which is demanded of it by business, viz., lowering of reserve requirements—the proportion of deposits which member banks must keep with the Reserve Banks—then, in all probability, the present gloom may be dispelled.

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