RESEARCH REPORTS

Summary

Indexes of production, purchasing power and prices for September are shown graphically on the last page of this bulletin. Allowing for the normal seasonal increase, production was virtually unchanged. The Index of Inflation, due primarily to the continued absorption of Government securities by the commercial banks and to additional Federal spending, made a new high; a new post-depression high was also recorded in the Institute's commodity price index which has registered an advance of 5.6% during the past twelve months.

The current monthly bulletin is chiefly devoted to a discussion of the nation's unemployment problem. The meager headway thus far made in the reabsorption of depression unemployment in private work indicates the seriousness of the situation.

A proper evaluation of the task is hampered by the dearth of accurate information of employment conditions outside of large manufacturing centers.

The Unemployment Problem

Neither the recovery of private industry nor the efforts of the WPA have to date resulted in any substantial lessening of the unemployment total. That private industry has been slower to reabsorb workers than in recoveries from previous depressions may be attributed primarily to the failure of the capital goods industries to share substantially in the recovery to date. This in turn is unquestionably due to the unsound monetary policies and to the financial racketeering undertaken by the present Administration.

The Administration previously boasted that all of the unemployed on relief would be given jobs by November 1st. It is now apparent that this will not occur, although it is probable that most of those on relief who are employable will be given some form of "made" work within the next few months. As a matter of fact, the procedure which was originally contemplated by the President in this respect appeared likely to yield better results than could be obtained through the former methods. Unfortunately, one of the essential basic principles has now been sacrificed to the gods of political expediency, with the result that the re-employment program has now become a hazardous venture which may lead to serious disaster.

So long as those who were given work through the use of Federal funds received only a security wage properly adjusted for each section of the country so as to avoid competition with private industry, this was a not unreasonable method. However, in the past few weeks, the Administration has surrendered to the demands of union labor. Even this surrender has not been frank and open, in that responsibility for fixing hours of work and therefore the rate paid per hour has been passed to the WPA Administrators of the forty-eight states.

In a number of the more populous regions, State Administrators have complied with the demands of union labor, with the result that the prevailing wage will be paid on WPA projects. This is a violation of common sense as well as the implied promise of the Administration to abide by the security wage. Obviously, if Federal employment on emergency relief projects is to pay an hourly rate which will compete with private industry, there may be a tendency for the number of Federal work relief employees to increase until a complete breakdown occurs.

Amount of Unemployment

Although it is clear that there exists an abnormal proportion of employment at present, the number involved can only be estimated. The most recent Federal Census of Unemployment, published in 1931 and taken in 1930, showed that of 48,872,000 employable persons, 93.6% were then employed. This indicates that unemployment total was more than 4,500,000. Subsequent estimates based upon the survey method indicate that there was a rapid increase through March, 1933. Since that time, a measurable degree of re-employment has taken place.

In attempting to determine present unemployment totals, it is advisable to consider sample figures made available by the United States Department of Labor Statistics as well as estimates of private agencies. Data regularly furnished by the Department of Labor show unemployment in the larger establishments, for the most part, and for this reason may not be typical. Surveys of unemployment made by such organizations as the National Industrial Conference Board and the American Federation of Labor vary substantially. This is not surprising when it is considered that even in the collection of such data by the United States Bureau of the Census, radical differences result from a changed definition of unemployment. If part-time employment for less than six months of the year is considered unemployment rather than underemployment, a difference in the neighborhood of 10% will result.
Other serious errors in estimating unemployment totals are due to the difficulty of obtaining data for large classes of occupations such as agricultural work, the small industries having but two or three employees, the service occupations and those employed irregularly in such work as may be classed as “repairs.” Information concerning employment for the hand trades, the professions, and other services sold direct to the public, is available only when it is obtained through the United States Bureau of the Census. By the time such data are classified and published they have more historic than current value.

In January, 1934, a comprehensive census of unemployment was made in Massachusetts. This census included all persons in the state, and covered those employed on full time, on part time, on Government projects, and those wholly unemployed. This census affords interesting ratios which we have used in estimating the size and composition of unemployment in the United States. Although Massachusetts is primarily an industrial state, urban and rural employment are considered separately.

Among estimates of unemployment made by statistical organizations, that of the National Industrial Conference Board seems to be as reasonable as any, as it is based upon the 1930 United States Census of Unemployment. This organization’s estimate as of July, 1935, places unemployment totals at 10,015,000. This is a decrease of only 3% from that of March, 1933, taking into consideration the estimated number of new workers (namely, 1,600,000), which should normally have been absorbed since 1930. Considering other estimates and data available by the Federal Emergency Relief Administration, this estimate seems reasonable.

**Depression Unemployment**

The proportion of this total due to the depression rather than to other causes is probably large. It is difficult to say what constitutes normal unemployment in this country. Although no actual data are available, it is estimated that in a year of unusually great business activity such as 1929, there were more than a million unemployed. In a period which may be considered approximately normal, an unemployment total as large as 3,000,000 to 3,500,000 will probably exist.

In the Massachusetts census of unemployment, individuals reporting themselves unemployed were asked for the reason. Ninety per cent gave economic reasons for unemployment. However, this does not necessarily indicate that the depression can be held responsible inasmuch as this response would be the natural one for anyone unemployed at that time.

We have made the assumption that in a normal year there will be 3,000,000 unemployed at almost any given date. Granting that the Conference Board’s unemployment estimate is reasonably accurate, there still remains the large total of 7,000,000 unemployed. This is approximately the number which must be re-employed before the nation has fully recovered from the depression.

**Technological and Seasonal Factors**

During the depression, great progress has been made in the efficiency of machinery and processes for manufacturing. Some of the potential increase in efficiency has been held in abeyance because of the inability or unwillingness of plant executives to make capital expenditures. As purchasing power increases and business confidence revives, the new and more efficient machinery which will be installed will of necessity decrease the number of industrial workers previously employed. We believe, however, that an adequate offset to this will be found in the manufacture of new products which will result from the same type of technical research.

The highly seasonal character of many industries has presented a serious problem to those interested in regularizing employment. Some progress has been made in smoothing out the demand for labor in certain individual industries. The efforts toward steadier employment in the automobile industries now being undertaken should not be regarded in too hopeful a light. It is difficult to persuade customers to buy cars except in the spring, and the cost of carrying large inventories of such expensive products as automobiles over a long period is prohibitive.

When normal employment returns in the construction industry a more regularized employment can be hoped for. New methods and materials have made it possible to carry on operations through almost the entire year, whereas many operations had to be suspended during winter months in the past.

**Employment Shifts**

The difficulty of obtaining accurate employment information for any but those employed in large manufacturing establishments has been mentioned. Judging from such data as are available, we believe that there has occurred, especially during the depression years, a trend from employment in manufacturing industries to employment in the service industries. Proof of this must unfortunately await the next Federal Census. If employment trends in Massachusetts are typical of those throughout the nation, there has been a movement in this direction. In Massachusetts there was a decrease between 1929 and 1933 of 25.6% in manufacturing employment while there was a decrease of only 20.7% in employment in retail trade.

As increased technical efficiency in the manufacture of goods permits lower costs to the consumer, there will normally be made available a larger share of purchasing power which can be applied to the service industries. For this reason a continuation of this employment shift during the years ahead is probable.

**Is Present Unemployment Permanent?**

The continued existence of a serious degree of unemployment without any substantial progress in reducing the totals has led to the fear that the nation will be confronted with a permanent problem of caring for some 10,000,000 of the 50,000,000 normally employed. No doubt the extension of Federal aid for emergency relief purposes has tended to discourage the seeking of private work by those now employed. Those now on relief who accept private employment which is not permanent encounter the danger of being removed from the relief rolls and possible future difficulties in again obtaining Federal aid.

In October, 1933, there was an unemployment relief census taken by Government agencies. According to this census there were 12,685,664 persons dependent upon Government relief, of whom 7,584,165 were in urban communities and 5,101,499 in rural areas. The most recent report available of the number on Federal relief was made by the Federal Emergency Relief Administration. According to this statement, there were
in June, 1935, 3,830,871 families on general relief. This figure did not include many phases of relief such as transient relief, rural rehabilitation, and numerous other classifications. According to the most recent Federal Census the average American family consisted of 4.1 individuals. This would indicate that at present there are well over 15,700,000 persons dependent upon Federal relief and suggests that there has been an increase in the number of relief recipients during the past two years in spite of the larger number of workers employed in industry.

The President has announced that efforts will be made to reduce relief expenditures as private employment picks up. At present there are indications of improvement in a number of the capital goods industries. Revival of the construction industry, which now seems to be in progress, should assist materially in bringing a partial solution of the problem.

**Security Loans and the Stock Market**

The total of loans on securities (including loans to brokers) made by the banks has declined steadily during past weeks of rising markets. Security loans of Reporting Member Banks of the Federal Reserve System now amount to but $2,910,000,000 as compared with $9,179,000,000 in October, 1929.

In July, 1932, when the stock market made its depression low, security loans were $4,601,000,000 or 58% above current levels. At that time the Dow-Jones industrial averages made a low of 41.22 and the railroad averages of 13.25 as compared with present averages of approximately 140 and 35, respectively.

It is clear from these comparisons that the present rise in stock prices is not supported by the type of credit extension which characterized the bull market of the late twenties. The factors of low money rates, increasing purchasing power, and rising corporate earnings sufficiently account for the past seven months' rise in stocks. Further advances in individual issues may be expected to accompany continued revival in the capital goods industries. The holding of certain types of equities as an inflation hedge may be expected to increase as the effects of present monetary policies become evident. Nervousness over European developments seems no longer to be a market factor.

In spite of the protracted rise in stock prices there is little reason to believe that the market is in a vulnerable position at present. Of course, it is at all times subject to temporary declines following too hopeful discounting of prospects for larger corporate earnings and disbursements.

**Supply, Demand, and Prices**

One of the most significant indications of a growing confidence in the business outlook is found in the rising volume of advertising in such prominent media as the newspapers, the magazines, and the radio. The general index of advertising activity reported each month by the U. S. Survey of Current Business averaged 79.1 during the past twelve months as compared with 74.6 during the year 1934.

Another significant indicator of business activity is available from reports of U. S. postal receipts, representing total post office business in the larger cities. These receipts are now running well above those of a year ago, the gain being particularly marked in post offices of industrial cities.

**Supply**

The usual indexes of production continue to show sustained activity. Electric power production during the past week was slightly lower than that of the previous week but still remains at a high level.

Steel production rose slightly and further increases are expected as soon as the major automobile companies expand their production of new models. The earlier introduction of new models by the large automobile manufacturers is expected to have an appreciable effect upon seasonal trends of freight car loadings as well as upon the important group of automobile and allied industries. The Institute will make necessary adjustments in computing its own index if this is found to be the case.

**Demand**

Reports from retail stores indicate a continued demand for consumer goods, recent figures from department and chain stores exhibiting evidences of continued demand well in excess of 1934.

Evidences of expanding demand in the durable goods industries are found in the highest level of machine tool orders since 1929, and in a favorable trend of inquiries for many types of industrial machinery.

**Prices**

The combined index of the United States Department of Labor has finally shown a downward tendency following a month of rising prices. This is due to decline in prices for food products, which had advanced to the point of encountering consumer resistance.

Commodity futures have been reactionary in response to better prospects for a solution of European difficulties.

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

**Statistical Summary**

For the convenience of clients who wish a more detailed statement of the three basic indexes presented than may be obtained from the charts we make the following tabulation showing the data for the past twelve months.

**Production, Purchasing Power and Prices**

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<thead>
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<th>1934</th>
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<td>Index of Industrial Production</td>
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<td>Index of Inflation (ratio form)</td>
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<tr>
<td>Commodity Price Index</td>
<td>134.5</td>
<td>134.7</td>
</tr>
</tbody>
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Commodity Price Index

(In terms of old gold dollar)
INDUSTRIAL PRODUCTION.

HARWOOD INDEX of INFLATION.

COMMODITY PRICES.