

# AMERICAN INSTITUTE for ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *No Time for Despair*

A great preponderance of last week's front-page news was extremely disheartening. The weakening of the Singapore defenses developed more quickly than even the pessimistic war analysts had anticipated. Unfortunately, there is no evidence that this success marked the high-water mark of the Japanese offensives. The long step toward complete collaboration taken by the Vichy Government may turn out to be an equally harmful development. A French-Axis alliance not only imperils the British position in the Middle East, but the possibility that French naval strength may be available for Hitler's service contains a real threat to our Atlantic Coast. (Does the recent movement of the Gneisenau and Scharnhorst indicate that Germany is preparing to coordinate the operations of a new fleet?) Furthermore, Vichy's changed attitude implies that, in its opinion, the Allies' chances of ultimate victory have become weakened.

There have also been adverse developments at home. There is no assurance that the carelessness that resulted in the temporary or permanent loss of the Normandie is not typical of other operations of a similar nature. The revelation of the amateurish character of the Office of Civilian Defense organization is offset only partially by the expectation that some degree of professionalism may be injected into the system as a result.

At such a time as this, it is most appropriate to review our sources of strength. The stand that General MacArthur is making in the Philippines affords reassuring evidence that the Nation is capable of organizing forces of a superior quality. Although actual data concerning the production of war materials are not made public, reports of journalists who have visited the Detroit area attest to the great progress that is being made in the production of armaments.

Finally, it does not seem probable that the Nation's fibre has deteriorated during the relatively short period of twenty-five years. In spite of the extravagances and inefficiencies that characterized our effort during the first World War, it was more than sufficient for the task. The tremendous force that this democracy has shown itself capable of developing can again be generated to meet a still greater threat.

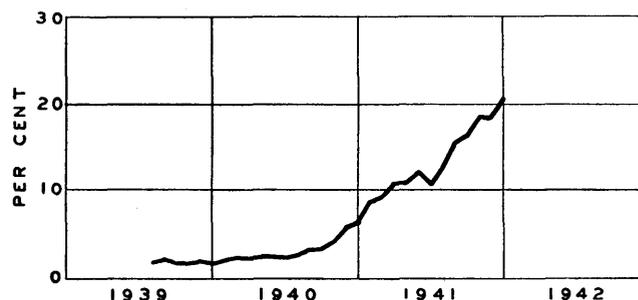
#### *Progress of the Defense Effort*

During December 1941, the first month of our war participation, slightly more than one-fifth of the

Nation's income was spent for defense. During the year, monthly expenditures for defense increased steadily, but the pace was accelerated during the last six months. The vast Government program has been responsible for a considerable increase in the national income, primarily because of the expansion in wage payments.

The accompanying chart, presented as a rough measure of our defense effort, was first published in the December 29, 1941 bulletin and was accompanied by a description of the data used. Expenditures for national defense are expressed as a per cent of all income payments, which include defense pay rolls in their total.

PER CENT OF TOTAL INCOME  
FOR NATIONAL DEFENSE

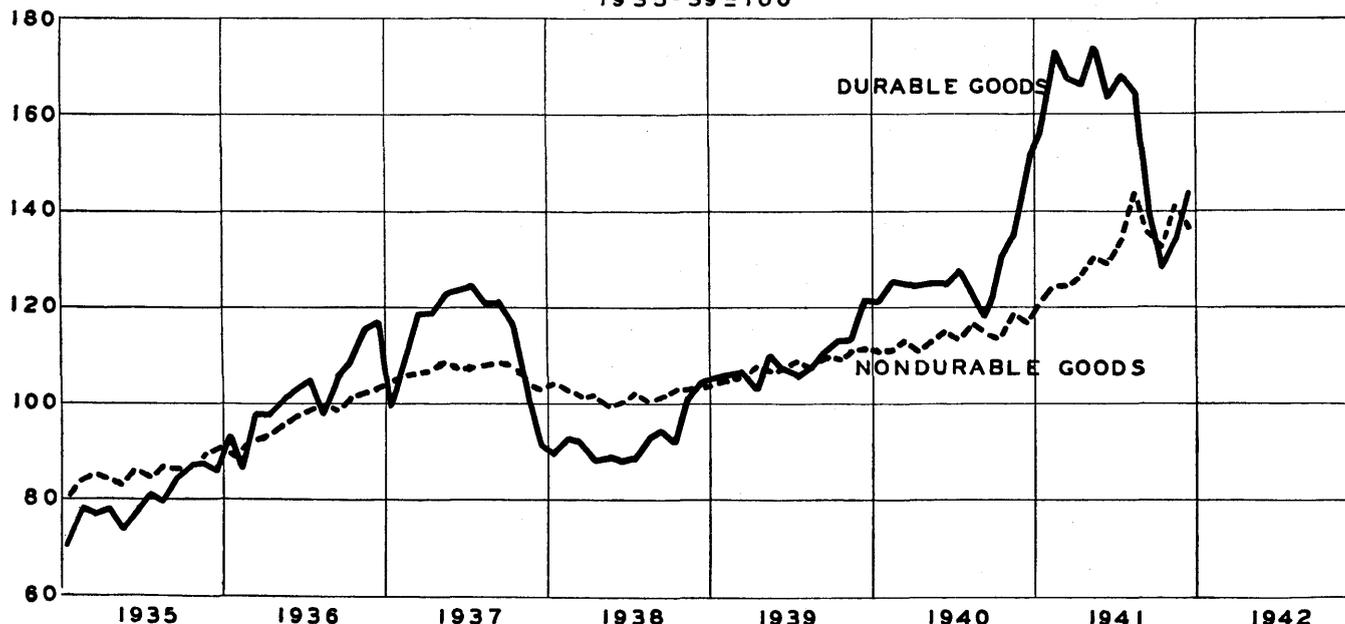


Monthly income payments averaged about \$6,000,000,000 during the first year of the war in Europe, but increased substantially after we began to assume the role of "arsenal of democracy," and in December 1941 aggregated about \$9,000,000,000. In the meantime, expenditures for national defense, which were running between \$110,000,000 and \$150,000,000 before we started the armament program increased so greatly that they reached \$1,850,000,000 for the month of December 1941.

Defense expenditures for January were \$2,100,000,000 and probably constituted a considerably larger proportion of income payments than they did in the preceding month, because total incomes are seasonally smaller in January than in December, the traditional month for bonuses. At the present rate of increase, the proportion of all production devoted to national defense will reach forty per cent of the total by the end of the year. Long before then, the public will become acutely aware of the changes that the war effort will make in their daily living.

## INDEXES OF RETAIL SALES

1935-39 = 100



### BUSINESS

#### *Indexes of Retail Sales*

The chart at the top of this page shows the trends of two indexes of retail sales compiled by the United States Bureau of Foreign and Domestic Commerce. During normal periods, demand for durable goods fluctuates more widely than demand for nondurable goods. Consequently, manufacturing activity in the durable goods industries also tends to vary more widely than does activity in the nondurable goods industries. However, a large proportion of production for national defense falls in the durable goods category and is of course not distributed to the public through retail store outlets.

Until the summer of 1941, the index of retail sales of durable goods followed a pattern somewhat similar to that of the Federal Reserve index of durable goods production. However, retail sales of durable goods began to decrease early last summer; whereas, the index of durable goods production continued to advance, as expenditures for war materials were increased.

The trend of the index of nondurable goods retail sales has been different from the trend of the durable goods index. Although it advanced less than the durable goods index, the movement continued three months longer and was relatively greater than the advance in the Federal Reserve index of nondurable goods. This apparently indicated that the public was buying nondurable goods at a rate somewhat greater than the rate of production of these commodities and that stocks of this class of goods were being reduced. There are no comprehensive data available to show the size of inventories of finished consumer goods in the hands of manufacturers or those being held by wholesalers or in the hands of many of the retail outlets. However, it is significant that the Federal Reserve Board's seasonally adjusted index of department-store stocks declined from 97 per cent of the 1923-25 average in October to 92 per cent in December.

Retail sales of durable goods increased during November and December, when the public was apparently having its last fling in the purchase of durable goods. Nevertheless, the level of the index in December was well below the high record made in May. The index of nondurable goods retail sales for December was somewhat lower than the November index but was closer to the year's high than was the durable goods index for the same month.

The trends of these two indexes should be especially informative during the war period. The United States Bureau of Foreign and Domestic Commerce stated that about two-thirds of all consumer expenditures are made through retail-store outlets, and the physical volume and probably the dollar volume of these purchases will decrease substantially during the year. If, as is frequently prophesied, our living standards are reduced to depression levels, the indexes of retail sales will decline; but, inasmuch as they are based on dollar volumes, they are unlikely to decline to the levels shown at the beginning of the chart in January 1935, because prices will doubtless be much higher than they were seven or eight years ago.

#### *The 1941 Strike Record*

Last year, when the Nation was developing its national defense program, interruptions to production because of strikes were especially serious. A monthly average of 275,000 workers involved in industrial disputes was higher than it has been for any other year for which comparable data can be obtained. Only in 1937, the year that marked the crest of the disturbances attributable to the organizing campaign fostered by the New Deal's labor legislation, did the monthly average of 265,000 workers involved in strikes approach last year's figure. The following table shows the number of workers involved in industrial disputes during each month of the past six years.

**WORKERS INVOLVED IN INDUSTRIAL DISPUTES**  
(Thousands of Workers)

	1936	1937	1938	1939	1940	1941
January	59	214	56	72	40	110
February	90	239	77	88	37	125
March	122	358	106	65	43	177
April	95	392	111	426	52	565
May	123	441	125	457	77	421
June	134	474	96	127	56	223
July	125	354	86	212	83	219
August	118	239	81	119	90	293
September	130	160	133	104	108	335
October	149	127	113	140	108	365
November	157	119	75	130	102	350
December	185	61	62	37	62	120
Average	124	265	93	165	72	275

The rivalry between representatives of the two national union organizations, the Congress of Industrial Organization and the American Federation of Labor, and the political activities of their leaders were probably the most important causes of the year's bad strike record. Jurisdictional disputes and demands for the closed shop and the check-off postponed settlement of many of the most costly strikes.

This situation aroused so much public protest that just before our entrance into the war the House of Representatives passed a restrictive anti-strike measure by a substantial majority. However, the strike wave quickly subsided after our entrance into the war. (Most of the strikes reflected in the December record were in progress before the attack on Pearl Harbor.) Industrial managers have reported that there has not only been a general absence of strikes but that industrial efficiency has been greatly increased by the cessation of "slow-downs" and other evidence of labor unrest.

This change in the attitude of organized labor has led Congress to abandon its anti-strike legislation. However, the demand for enactment may be revived if the conditions that evoked it again arise. Some national labor leaders already appear to feel that their positions can be justified only by keeping alive class feeling and by demanding the surrender of important managerial prerogatives to organized labor representatives. The course of industrial relations during 1942 cannot be readily predicted. Congress will probably be ready to check another strike wave if it is caused by political activities of labor leaders, but, if there are inflationary increases in living costs, the public will probably recognize organized labor's right to endeavor to protect itself by demanding higher wages, even if it seeks to enforce its demands by strikes.

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate last week advanced from 96½ to 97½ per cent of theoretical capacity. Last week's operating rate, the highest for the year, was made possible by a moderate increase in the supply of steel scrap in several areas that had been suffering from a shortage of this material. The urgency of the wartime demand for steel was emphasized by *The Iron Age* in the following statement: "Against a backdrop of dangerous developments in the Far East, the metal working industry heard new warnings that the urgency of the need for greater war implement production can hardly be exaggerated. At Pittsburgh, William L. Batt, WPB materials chief, warned business men that they

may have to sacrifice everything that does not contribute to the victory program."

	1929	1932	1937	1938	1941	1942
Per Cent of Capacity	87.0	27.0	84.0	30.5	97.0	97.5

(Latest 1942 weekly data; corresponding week earlier years)

Electric-power production last week was approximately the same as it was in the preceding week. The gain from output in the corresponding week of 1941 was approximately 16 per cent.

	1929	1932	1937	1938	1941	1942
Billion Kilowatt-Hours	1.72	1.58	2.20	2.05	2.99	3.47

Cotton-mill activity decreased contraseasonally last week, and the adjusted index declined from 177.3 to 171.4 per cent of estimated normal. Most of the cotton goods now being released from the mills is available only to buyers with high priority ratings.

	1929	1932	1937	1938	1941	1942
New York Times Index	*	89.7	138.4	87.2	150.8	171.4

\*Not available until third week of March.

Lumber operations increased somewhat last week but to a smaller extent than was seasonally expected. Consequently the adjusted index declined from 138.1 in the preceeding week to 136.7.

	1929	1932	1937	1938	1941	1942
New York Times Index	122.8	30.9	69.3	56.6	139.5	136.7

## Demand

The dollar volume of retail sales is still large but is gradually receding from the high level that prevailed a few weeks ago. The reports from retail-trade associations indicate that the hoarding movement has passed its peak, but whenever there are rumors of new commodity shortages in prospect abnormally large sales of the particular commodities in question are made. A sharp decrease in retail purchases may occur within the next few weeks. The principal factors pointing to this are the approach of the income-tax date, the spread of "priority unemployment," and the narrowing range of goods offered for sale.

## Prices

The sensitive wholesale commodity price indexes remained substantially unchanged last week. Moody's Spot Commodity Price Index was 226.9 on February 5 and 226.8 on February 11. The Dow-Jones Index of Commodity Futures closed at 86.90 on February 5 and at 86.59 on February 11.

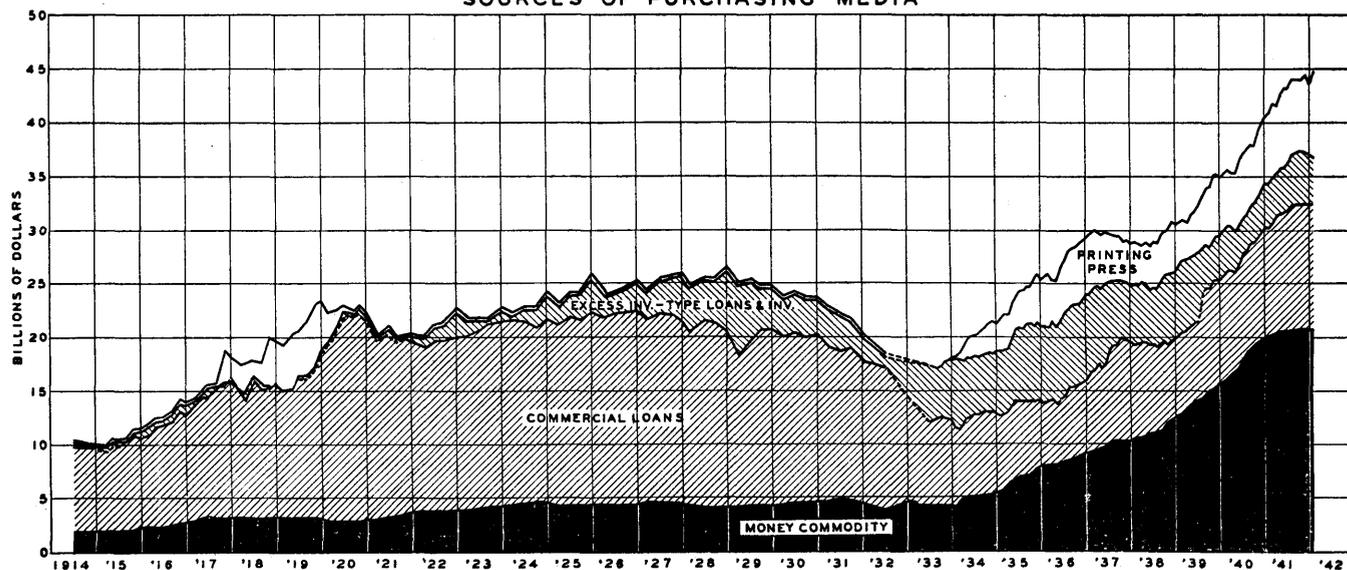
## FINANCE

### Sources of Purchasing Media

Total purchasing media from all sources increased during January and, at the end of the month, had more than regained the loss sustained during December. During December there was a decrease of approximately \$1,000,000,000 in the total, and there was an increase of about \$1,500,000,000 during January. Such extensive fluctuations are typical of a wartime economy, when the money-credit system is almost entirely subject to Government fiscal policies and to the effects of Treasury financing operations.

There was no appreciable change in purchasing media available from the money commodity during January. There was an increase of \$9,000,000 in the total monetary-gold stock. This was less than half of the recent domestic monthly average gold production, so that there was apparently a small net export of gold from the country.

## SOURCES OF PURCHASING MEDIA



There was an increase in total purchasing media derived from commercial loans last month. The increase was sufficiently great to indicate that the type of credit extension classified as commercial, industrial, and agricultural loans has not yet been seriously discouraged by the Government.

For the second successive month, there was a decrease in purchasing media from the third source. The third source represents an excess of investment-type assets representing tangible property with respect to the savings available to the banking system. These investment-type assets are Government-guaranteed and "other" securities held by the commercial banks. Last month, the banks slightly reduced holdings of Government-guaranteed securities.

Nearly all of the increase in total purchasing media during January was attributable to the increase in purchasing media from the printing press. The commercial banks added about \$850,000,000 to their holdings of direct Government obligations. The Treasury also reduced its bank balances with the Federal Reserve banks and with other depositories by more than \$600,000,000. This reflected the distribution of funds acquired by the Government through the December income-tax installment payments and also by the sale of a new bond issue during the month.

The Treasury has announced that it will undertake new borrowing during February, the extent of which will of course be determined by the rate of Government spending and by the extent to which funds become available through the purchase of savings bonds. The volume of purchasing media available to the public will apparently continue to increase until the March 15 income-tax payments become due. Although corporations and wealthy individuals may meet some of the payments with tax anticipation certificates, the Board of Governors of the Federal Reserve System believe that the total volume outstanding will tend to increase rather than to decrease, because of the prospect of even higher taxes in the future.

### *New Capital Issues in Great Britain*

Before the outbreak of the European war we regularly published monthly series showing the value of new

capital issues in Great Britain. Monthly data are no longer available, but annual figures have been compiled by the British Midland Bank and are summarized, as follows:

NEW CAPITAL ISSUES IN THE UNITED KINGDOM

Year	Millions of Pounds	Year	Millions of Pounds
1920	384	1931	89
1921	216	1932	113
1922	236	1933	133
1923	204	1934	150
1924	224	1935	183
1925	220	1936	217
1926	253	1937	171
1927	315	1938	118
1928	363	1939	66
1929	254	1940	4
1930	236	1941	2

The table illustrates clearly the devastating effect of war on a nation's private capital market. It may be anticipated that the experience will be somewhat similar in the United States, although it is not certain that the reduction in the volume of private issues will be so drastic as it has been in the United Kingdom.

## SECURITIES

### *Bonds*

The bond market was not immune to last week's pessimism. Obligations of the Australian Commonwealth declined to their 1941-1942 lows. However, the general list lost only a small fraction of the gains made during the preceding six weeks. The Dow-Jones Average of 40 bonds declined from 90.52 on February 5 to 89.87 on February 11.

### *Stocks*

Although the stock market quite naturally reacted unfavorably to disastrous developments in the Pacific last week, declines were less extensive than might have been expected, and there was no appreciable increase in the volume of transactions.

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