AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Bataan, the Symbol

The American people can be reassured by the knowledge that the heroic and brilliant defense of Bataan dwarfs the significance of its conclusion. In taking the peninsula, the Japanese failed to eradicate Bataan, the symbol. The formidable qualities that the defense exemplified remain to confront an enemy that has so far achieved success on every field.

Important tests of America's war power are ahead as the German and Japanese "final" war strategies are developed. If our mass performance measures up to the quality shown by our outpost forces, ultimate success is assured.

India

When Sir Stafford Cripps first went to India, many newspapers published an oversimplified statement of the situation. The press in general assumed that, if India were promised its freedom, it would immediately become a united and powerful bulwark of defense against the Japanese. However, a more careful examination of the problems involved gives a better conception of the extreme intricacy of Britain's task.

Whatever compromises may be effected, a really satisfactory solution cannot be expected within the next few years, if ever. More problems are involved in India's social structure than in Ireland's, and a satisfactory disposition of the latter country's status has not yet been reached. Present developments indicate that, whatever accord is reached, there will be no enthusiastic rallying of the Indian people for defense. In fact, it is a question how effective such efforts would be even if they could be initiated.

On the other hand, a widespread uprising, amounting to revolution, will probably be avoided. The people's interests and opinions are so divergent that concerted action is improbable. Sabotage may be expected, and there may be some assistance to the enemy, such as was reported in Burma, if the Japanese columns penetrate into India. However, the British can probably maintain control over most shipping and manufacturing facilities that are now being employed in the defense of India.

WHERE ARE WE GOING?

War and Postwar Readjustments

The adaptation of the Nation's economic mechanism to wartime requirements has made alterations in many features of the system necessary. However, these have not changed the basic structure. Once we were actively in the war, American industry quickly turned to the production of war materials. The same flexibility may be expected to facilitate the necessary adjustments in the postwar period.

For reasons that will be discussed later, we believe that problems associated with production will be more pressing than those relating to demand during the early postwar period. After a protracted conflict, the domestic supply situation is similar to that existing after a severe depression, when the public is eager to acquire the conveniences that they have been obliged to forego. Before these can be supplied, the industrial processes that have been adapted to war production must be readjusted to peacetime needs. The seriousness of the necessary readjustments will vary widely among the different industries.

Nondurable Goods Industries

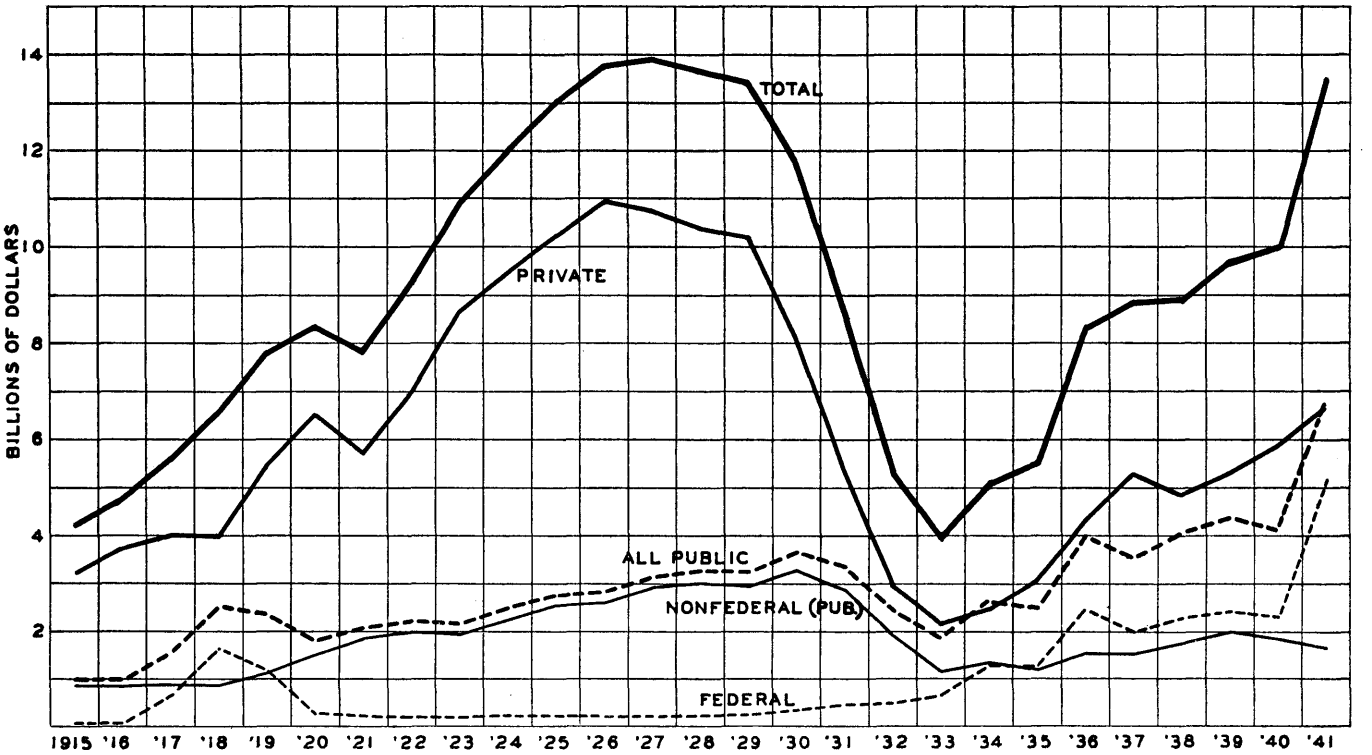
The war has created abnormal strains on the nondurable consumer goods industries and their distributing mechanisms. Yet, they are far less severe for this group than for the durable consumer and producers goods industries. The sales organizations of food and clothing companies are kept relatively intact, and the activity of most of the manufacturing processes in these groups is maintained at high levels.

The industrial and commercial mechanisms associated with the nondurable goods industries are employed primarily for the processing and distribution of agricultural products. The aggregate embraces about two-thirds of the Nation's economic processes during normal times and approximately one-half during war time.

Heavy-Type Industries

In an earlier section we have shown that a large part of the extraordinary wartime industrial activity is concentrated in a relatively small number of industries. These are primarily the metal industries, and employment in these groups has more than doubled during the war period. After the war, employment opportunities will virtually disappear for a time in the shipbuilding, armament, and munition industries. Part of this labor force will find employment in trade as normal commercial activities are resumed. Others will be absorbed by industries supplying demand for heavy-type goods that could not be obtained during the conflict.

ANNUAL CONSTRUCTION AND MAINTENANCE COSTS



The Construction Industry

The construction industry (defined by the United States Department of Commerce as including "the design, production, and maintenance of fixed works and structures as well as substantial changes in the earth's topography") is of great importance, both because it directly employs a large number of workers and because of its effect on the steel, lumber, cement, paint, and other industries.

The accompanying chart presents estimates of all construction and maintenance costs in the United States as compiled by the United States Bureau of Foreign and Domestic Commerce. The annual series includes the cost of construction for maintenance as well as the cost of new construction. It also includes the value of installations of equipment (such as plumbing, heating, and lighting equipment and elevators) but not of factory machinery and other movable equipment, shipbuilding, and land. Highway construction also comprises an important part of the total shown.

Until the 1929–32 depression, the value of private construction greatly exceeded the value of public construction except during the year 1918 when our war efforts caused a great increase in Federal undertakings and a curtailment of private building operations. After the stock-market crash in 1929, private construction activity decreased substantially, and public construction work was increased, in the hope of hastening recovery. As the depression continued to deepen, building financed by the Federal Government was further increased, but construction activity by political subdivisions decreased as tax revenues diminished.

Even before the war, construction undertaken by the Federal Government was becoming an increasingly important factor in the industry. Federal construction outlays during the decade of the 1920's constituted an almost negligible proportion of the total, but since 1934 they have exceeded outlays for construction by the political subdivisions and were about 25 per cent of total construction expenditures. After the national defense program was initiated, the importance of Federal construction increased greatly and for the year 1941 constituted nearly 40 per cent of the total.

Until the end of the war, there will be no substantial volume of private construction, but the United States Department of Commerce recently stated that "war requirements suggested that, in spite of drastic curtailment of some types of projects because of the scarce material supplies, total expenditures on construction in 1942 would at least approach the 1941 level. Direct military construction is to be much heavier than last year, while the building of new plants should be reduced but little. In addition, considerable activity in other fields, including residential building, is deemed essential to the war effort." [1]

Greater longevity of most types of buildings has apparently resulted in creating a cycle of construction activity that is more extensive in duration than the ordinary business cycle, inasmuch as the complete cycle of construction activity extends from fourteen to twenty years.

The recovery stage of such a cycle had started in 1916, but it was interrupted during the period of our participation in the first World War and was again interrupted during the primary postwar depression in 1921. Thereafter, a combination of circumstances created the greatest building boom that the country had ever experienced.

Apparently a normal recovery in construction activity began in 1934. The recovery phase of the construc-

[1] *Survey of Current Business*, February 1942, page 35.

ANNUAL AUTOMOBILE PRODUCTION IN THE UNITED STATES

tion cycle has therefore lasted eight years. Unless the cycle is confined to the minimum limits indicated by past experience, a continuation of the recovery phase for several more years might have been expected. It therefore seems probable that, following the wartime interruption, there will be a large volume of construction and maintenance outlays.

Postwar building activity will presumably be concentrated in the residential field, in new road construction, and in public works. Government officials have recently been making studies of the residential-building boom that was the mainspring of the recovery in Great Britain from the depression of the early 1930's. A great deal of that building was financed by the British Government, and the Federal Government is expected to play an important role in the residential-construction field in the future.

The Automobile Industry

The group of industries classified by the United States Bureau of the Census as "motor vehicles, bodies, and parts" is given the first rank in importance of all of the leading industries. Like the construction industry, the automobile industry is also of primary importance because it is the chief customer of the rubber, plate glass, petroleum, and other industries.

The chart at the top of this page shows the number of automobiles and trucks produced in the United States each year during the past twenty-nine years. The industry was relatively undeveloped at the beginning of the World War but greatly increased its stature during the next decade. Production was increasing rapidly before we entered the first World War and reached nearly 2,000,000 vehicles for the year 1917. Production was curtailed in 1918, but the industry was not adapted to the war effort in that year so completely as it is in 1942. It was during the period following the first World War that the industry developed to its predominant position.

During the 1929–32 depression, the industry's production was curtailed but it retained its position of relative importance to other industry groups. Although per capita production as great as that existing during the years 1923–1929 has not since been achieved, the actual number of vehicles was equal to or exceeded the "New Era" average during the past few years, with the exception of the depression year 1938.

During the past decade, beginning with the depression year 1932, the industry has produced an annual average of 3,462,500 vehicles. The public apparently bought cars more freely in 1940 and 1941 than they normally would, perhaps in anticipation of war shortages. However, the influence of this factor on the ten-year average would not be appreciable, and it is apparent that the Nation normally requires nearly 3,500,000 new cars and trucks each year. Of course, it cannot be assumed that the demand postponed during the war period will be immediately effective thereafter, and in fact the industry could not meet it if it were, because the process of retooling the industry for peacetime production will cause a delay of months before large-scale production can again be reached. Nevertheless, the automobile industry should be a major aid in effecting postwar readjustments.

It seems reasonable to conclude that the nondurable goods industries and the two great durable goods industries that we have discussed will afford important bulwarks against an economic collapse after the war. Other economic aspects of the postwar period will be considered in subsequent bulletins.

BUSINESS

Telephones in Use

There was an increase of approximately 115,000 telephones in service during March 1942. This compares with an increase of 120,000 in February this year and an increase of 140,000 in March 1941. The Institute's index of the number of telephone stations in service per capita advanced from 125.4 in February to 126.0 in March. Last month's gain compared unfavorably with that recorded a year ago and apparently reflected a declining rate of increase that will bear watching.

Commercial Confidence

Measured by newspaper advertising lineage, there appeared to be a decrease in the desire or the ability to seek new business during February 1942. The situation in February 1942, in comparison with that in February 1941, was as follows:

Newspaper Advertising Lineage	February 1941 (Millions of Dollars)	February 1942	Per Cent Decrease February 1942 from February 1941
Classified	20.7	18.2	12.1
Display			
Automotive	5.3	1.6	69.8
Financial	1.4	1.3	7.1
General	14.8	14.7	0.7
Retail	51.8	52.2	*0.8**
Total	94.0	87.9	6.5

*Increase

Retail display advertising was the only subdivision of the total that showed an increase. The great decrease in automotive advertising was obviously caused by the withdrawal of all new cars from public sale. The relatively small decrease in classified advertising indicates the gradual recession that is occurring in miscellaneous commercial activities as war restrictions are tightened.

THE FUNDAMENTALS

Supply

There was another fractional increase in the steel-ingot production rate last week from 98½ to 99 per cent of theoretical capacity. The same rate prevailed during the corresponding week of 1941, but tonnage produced this year is substantially greater because producing facilities have been expanded. The *Iron Age* summarized the current situation in the industry as follows: "The steel industry, which has lifted production far beyond the levels expected, reports another flood of orders. Many steel companies report March shipments including 96 to 97 per cent priority-rated business and believe that 99 to 100 per cent of April business will be rated tonnage. In some instances as much as 90 per cent of current steel shipments involve bookings with A-3 ratings or higher. Lend-lease orders for Russia are increasing sharply, and cover vast tonnages."

	1929	*1932*	*1937*	*1938*	*1941*	*1942*
Per Cent of Capacity	96.0	22.0	91.5	32.5	99.0	99.0

(Latest 1942 weekly data; corresponding week earlier years)

Electric power generated last week showed a larger gain from output in the corresponding period of 1941 than was reported in the preceding week. The seasonal trend of electric-power production is generally downward from now until mid-summer, but a less-than-seasonal decrease is expected this year.

	1929	*1932*	*1937*	*1938*	*1941*	*1942*
Billion Kilowatt-Hours	1.66	1.47	2.18	1.99	2.96	3.35

Lumber production decreased contraseasonally last week, and the adjusted index declined from 120.8 to 118.8. Contrary to the trend of the production index last week there was a sharp increase in the new orders index.

	1929	*1932*	*1937*	*1938*	*1941*	*1942*
New York Times Index	142.1	40.8	85.0	60.3	124.2	118.8

Demand

The dollar volume of Easter retail business was the highest ever recorded. The source of the purchasing ability that has made this record possible may be clearly discerned from the statistical data available. The income-payment figures compiled by the United States Department of Commerce show that income from all sources in 1941 exceeded that in 1940 by 18 per cent. On the other hand, incomes from salaries and wages were 27 per cent greater. Political controversies have recently emphasized the increase in corporation profits last year. These were apparently not passed on to security holders, because the Department's figures show that income payments in the form of dividends and interest increased only one-tenth of one per cent in 1941 from the 1940 level. Last week the Federal Reserve index of department store sales was 22 per cent higher than it was during the corresponding week of 1941.

Prices

There was no pronounced change in the sensitive wholesale commodity price indexes last week. Moody's Spot Commodity Price Index was 232.3 on April 2 and 234.0 on April 9. The Dow-Jones Index of Commodity Futures closed at 87.66 on April 2 and at 87.64 on April 9.

At last week's average level, the spot commodity price index was 66 per cent higher than it was at the end of August 1939, just before the war began. The futures index has advanced more than has the spot commodity price index, and last week was 82 per cent higher than it was at the end of August 1939. During this period, the United States Bureau of Labor Statistics' combined wholesale commodity price index, which includes more than 800 separate quotations, has risen about 30 per cent. Although the fluctuations of the sensitive wholesale commodity price indexes are usually greater than those of the much more comprehensive Government index, changes in the sensitive indexes that are sustained indicate that there will be similar changes in the general price structure.

SECURITIES

Bonds

Following an advance during the early part of last week speculative bonds declined in later sessions. The Dow-Jones average of 40 bonds was 90.94 on April 2 and 90.68 on April 9.

Stocks

Strength in the New York stock market, which was the rule early last week, failed to continue during adverse war developments. However, the later reaction was not serious and failed to occasion an appreciable increase in the volume of transactions.

RECOMMENDED BOOKS

"*Charles Peirce's Empiricism*," by Justus Buchler. Harcourt, Brace & Co. ($3.50)

Unfortunately, Charles Peirce is one of the less well-known among American philosophers of the nineteenth century. In many respects, he was a pioneer in the application of the scientific method to philosophical inquiry. Primarily for that reason, this presentation of his work is of unusual interest. By far the larger part of his writings has never been published. Consequently the material that he left has proved to be a rich source for our younger philosophers who had already benefited from a more scientific approach to the problems with which philosophy has been concerned.

It would certainly be helpful to progress in the social sciences if economists and sociologists in general familiarize themselves with Charles Peirce's work. By pointing the way to more clear and accurate thinking, he did much to shape the principal tool on which the social scientist must rely.