

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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W E E K L Y
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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Air Offensive Against the Rhineland

The industrial development that lies in the German Rhineland is in magnitude and skill of operation second only to that in the Pittsburgh and Detroit areas in the United States. This German industrial giant is younger than that of the British Midlands, but surpassed the latter in growth during the two decades preceding the first World War. Although the capacities of the metal industries acquired by the Greater Reich comprise a formidable aggregate, the Rhineland development remains the core of the enemy's source of supply for heavy war materials.

The demonstration of air power over Cologne and Essen reveals the vulnerable position of Dortmund, Duesseldorf, and the other great industrial centers of the region. Mr. Churchill's threat to sweep this area and others in Germany "city by city" can surely be realized with the help of United States bombers and crews. This possibility must live constantly in the minds of workers and demoralize productive processes in centers that have not yet felt the effects of mass air attacks.

Reports seeping out of Europe that Hitler can place only limited dependence on production from France, Bohemia, and other conquered nations seem plausible when viewed in the light of the normal human behavior pattern. Unwilling personnel, material shortages, and transportation difficulties have undoubtedly had adverse effects on production outside of the industrial areas of Germany proper. In fact, the decline in the use of German air power must signify either that the airplane potential needed for her ambitious tasks is being depleted or that it is being reserved for a decisive offensive. We are of course not in a position to determine which alternative is the more probable, but, as economists, we can assure our readers that any serious impairment to the German industrial machine will prove fatal to Hitler's cause.

First to appreciate the terrible possibilities of modern machines for offensive warfare, the Germans may find, as they did a quarter of a century ago, that they have evoked forces over which others can develop superior mastery. It is unfortunate that the duration of the conflict cannot be predicted with as great assurance as its outcome.

Employment Relations in Wartime

There were serious interruptions of industrial production resulting from labor disputes during the irreg-

ular recovery from the depth of the depression in the early 1930's. However, these were followed by relatively peaceful industrial relations during the first year and a half of the second World War that started in September 1939. In 1941 when the Nation was developing its national defense program, interruptions to production because of strikes were again especially serious.

Jurisdictional disputes and demands for the closed shop and the check-off were features of the strike wave in 1941. These aroused so much public protest that, just before our entrance into the war, Congress was prepared to enact a restrictive anti-strike measure. Control measures were abandoned by Congress when the Pearl Harbor attack improved the chances for labor peace.

The following table shows the number of workers involved in industrial disputes during each month of 1939, 1940, and 1941, and during the first three months of 1942.

WORKERS INVOLVED IN INDUSTRIAL DISPUTES
(Thousands of Workers)

	1939	1940	1941	1942
January	72	40	110	41
February	88	37	128	80
March	65	43	179	80
April	426	52	567	
May	457	77	420	
June	127	56	227	
July	212	83	226	
August	119	90	305	
September	104	108	358	
October	140	108	348	
November	130	102	339	
December	37	62	59	
Average	165	72	272	

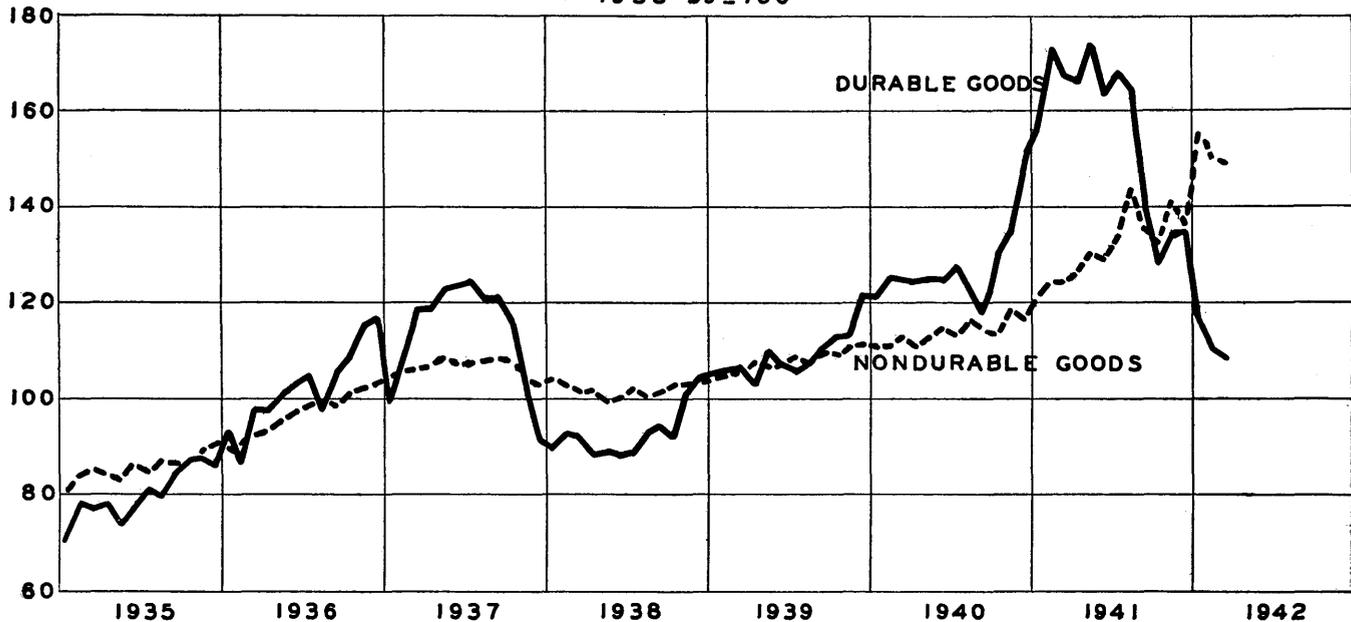
Although the informal agreement between the Government and the two national labor organizations to prevent strikes in plants engaged on war work have not entirely eliminated interruptions because of disputes, the record shows the relatively small number of workers that were involved in strikes during the first four months of war participation.

Organized labor's patriotism may be severely tested if the inflationary price rise continues. If Government agencies engaged in arbitrating disputes take the position that civilians must expect to sacrifice a part of their high living standards during wartime and therefore that increased living costs do not afford a sound argument for further wage increases, dissatisfaction in

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INDEXES OF RETAIL SALES

1935-39=100



the ranks of labor may create another crisis in industrial relations.

BUSINESS

Indexes of Retail Sales

The indexes of retail sales shown in the chart on the top of this page are compiled by the United States Bureau of Foreign and Domestic Commerce. The indexes are intended to reveal the trend of consumer expenditures, about two-thirds of which are made through retail-store outlets. Although the indexes prepared by the Bureau are based on incomplete data, the information obtained is believed to be typical of all store sales in the United States.

The indexes are expressed as percentages of the 1935-1939 monthly average and are adjusted to allow for the number of working days in the month and for seasonal factors. There is a combined index of all retail stores, and there are separate indexes for durable goods stores and nondurable goods stores. We have selected the last two indexes to present in chart form, because their trends have economic significance in normal times and have been especially informative during the war period.

The durable goods outlets used in compiling the index include stores selling building materials, hardware, household furnishings, and passenger automobiles. The sales of these classes of goods increased to a pronounced degree after the war started in 1939, and the level reached by the durable goods index in 1941 reflected the public's desire to buy before prices became prohibitive or difficulties arose in obtaining supplies. Durable goods sales began to decrease by mid-summer of 1941 (before supplies were being restricted) apparently because the public demand had been temporarily satiated during the buying boom of the preceding few months. Although the rate of production of durable goods has more recently reached a record high level, the most important proportion of this class of

industrial output is for war purposes and is of course not distributed to the public through retail-store outlets. The durable goods index for March, the latest month for which data are shown on the chart, was at approximately the level recorded just before the war started in 1939.

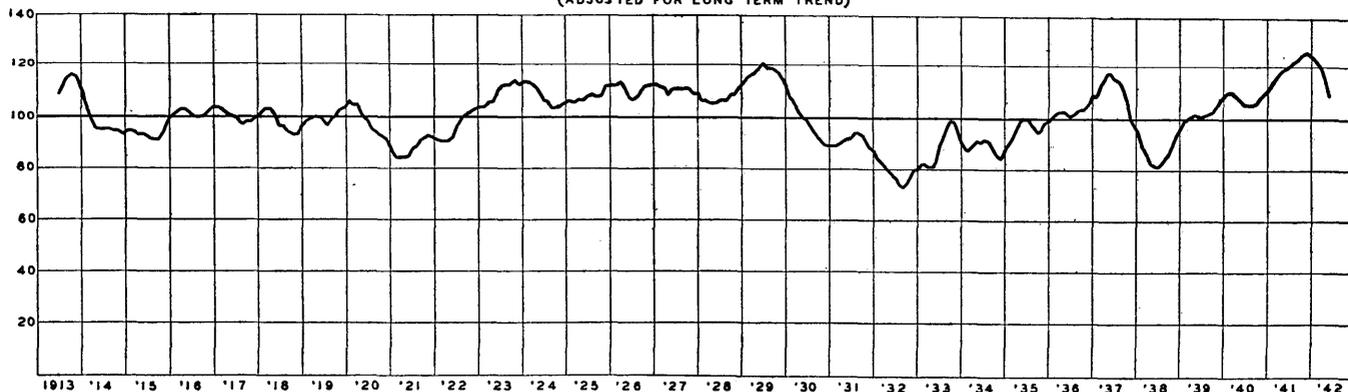
Nondurable goods stores include food stores, restaurants, apparel stores, filling stations, drug stores, and general merchandise stores. The chart shows that public spending during the past twelve months has shifted its emphasis from purchases of durable goods to nondurable goods. The nondurable goods index has advanced as the durable goods index has declined. The nondurable goods index may have reached its high point for the movement in January this year. It is the Government's announced aim to reduce the volume of public spending for unnecessary nondurable goods as well as for goods in the durable category.

Index of Living Standards

The index shown in the chart at the top of page 91 reflects the physical volume of consumer goods produced and distributed per capita in the United States. It is adjusted for long-term trend by adapting "weights" given to the component series of the index each year, so that each item has an influence proportional to the year's production. The normal time required for consumer goods to reach the hands of the public is about six months.

It is not possible to utilize the Nation's productive capacity to the full at any time, but, when this condition is approximated in peacetime as it was during much of the decade of the 1920's, the country's living standards reach a high average level. There was much unused plant capacity during the severe depression of the early 1930's, and even after the recovery later in that decade, there were unemployed men and machines. It was therefore possible to increase the volume of consumer goods production greatly during 1941, at the same time that defense production was also being expanded.

INDEX OF LIVING STANDARDS
(ADJUSTED FOR LONG TERM TREND)



The last month before we entered the war marked the crest of the prosperity boom in the United States that was pushed to new heights first by demand from abroad that resulted in increased pay rolls here and then by our own rearmament program that gave full employment to virtually all skilled workers in the metal industries. Production for civilian consumption reached its peak about one year ago, but large supplies of durable and nondurable goods were available for distribution after the Nation's productive capacity was being transferred to war work.

The rate of decline has been accelerating this year, and the index had decreased from 126.5 per cent of normal in November 1941 to 108.6 (preliminary) at the end of May 1942. At the current rate of decline, the index will be well below the normal level before the end of the summer.

THE FUNDAMENTALS

Supply

The steel-ingot production rate increased last week from 97 (revised) to 98 per cent of theoretical capacity. *The Iron Age* commented as follows on the current situation in the industry: "In the steel, automotive-aircraft, and shipbuilding industries and in machine tool and other plants, production frequently is exceeding rated capacities, which throws out calculations of war agencies on output and is forcing alterations in plans for completing the Nation's industrial war machine. This hidden 'over-capacity' of U. S. plants dovetails into United Nations strategy for a tremendous effort to shorten the war. At the same time it emphasizes the need for improvement in the distribution of tanks, planes (certain types), ships, and guns from American plants to battle areas. If present and anticipated demands for lend-lease requirements are met, and if Army, Navy, and maritime commission requirements are filled, as they will be, some highly essential civilian needs and some less essential military needs are likely to be sacrificed. Here the objective is a 'short' war. If the war turns out to be long, greater attention will be given the release of steel for essential maintenance and repair programs."

	1929	1932	1937	1938	1941	1942
Per Cent of Capacity	96.5	22.0	75.0	26.0	99.5	98.0

(Latest 1942 weekly data; corresponding week earlier years)

The increase of 12½ per cent in electric-power output last week, compared with production in the corresponding week of 1941, was more favorable than it was

in the preceding week. The industry is now generating more than 50 per cent more power than it was prior to the outbreak of war in 1939.

	1929	1932	1937	1938	1941	1942
Billion Kilowatt-Hours	1.69	1.31	2.13	1.88	2.95	3.32

Lumber production increased contraseasonally last week, and the adjusted index advanced from 115.3 to 119.9.

	1929	1932	1937	1938	1941	1942
New York Times Index	119.8	38.7	95.8	60.1	115.6	119.9

Demand

The United States Department of Commerce announced last week that income payments in the Nation increased from \$8,654,000,000 in March to \$8,784,000,000 in April. Although there was a decrease in dividend and interest payments, this was more than offset by larger pay rolls. The dollar volume of department-store sales last week was 12 per cent smaller than that for the corresponding week of 1941. Apparently the physical volume of sales has been greatly reduced inasmuch as average department-store prices are about 20 per cent higher than they were a year ago.

Prices

The sensitive wholesale commodity price indexes were reactionary last week, although a firmer trend was evident at the close of the period. Moody's Spot Commodity Price Index was 231.3 on May 28 and 228.7 on June 4. The Dow-Jones Index of Commodity Futures closed at 86.31 on May 28 and at 85.26 on June 4.

FINANCE

The Harwood Index of Inflation

The Index of Inflation in ratio form advanced from 113.6 for the week ending May 20 to 114.6 for the week ending May 27. This was the eighth consecutive week in which advances in the Index were recorded. The advance in the Index last week was caused almost entirely by the distribution to the public of demand deposits created by the commercial banks in payment for Government securities.

The March income-tax payments made it possible for the United States Treasury to disburse nearly \$3,500,000,000 in that month without incurring a deficit. In fact there was an excess of receipts of \$110,000,000. However, tax receipts were greatly reduced during April, and the Treasury incurred a deficit of \$3,000,000,000. The deficit for May was

about \$3,400,000,000. Although a substantial portion of this two-month deficit of \$6,400,000,000 was financed through the sale of Government bonds to savings institutions and the sale of Savings Bonds to individuals, the Treasury was forced to resort to the inflationary funding of about 40 per cent of the new debt through the commercial banking system. (The commercial banks purchased about \$2,600,000,000 of Government issues during the two months, when there was no increase in the banks' savings-type liabilities. In fact, there was a decrease of nearly \$100,000,000 in the commercial banks' savings deposits during this period.)

The current inflationary progression will be temporarily halted during June, when the second installment of the income tax is due and is expected to provide the Treasury with nearly as large funds as were received in March this year. The Government authorities have various plans for withdrawing purchasing media from the public via tax assessments or forced savings deducted from pay rolls, but, until one or more of these are actually put into operation, sharp advances in the Index of Inflation are certain to be recorded during months in which income-tax installments are not due.

SECURITIES

Bonds

Speculative railroad bonds led a down turn in the bond market early last week, and the general average lost about one point before a firmer price trend developed. The Dow-Jones average of 40 bonds was 89.35 on May 28 and 88.63 on June 4.

Stocks

The divergent trend between the industrial issues and the railroad issues listed on the New York Stock Exchange, which has been evident since the latter part of April, was more pronounced last week. Investors who have been switching from railroad issues into industrial issues apparently believe that the chances for an early peace have improved and that the loss to the railroads carrying heavy war materials will not be offset by the anticipated increase in demand for consumer durable goods during the postwar period. This "peace scare" may not recognize the extent to which many of the railroads have been able to strengthen their financial positions recently, and even if the war ends within a year their securities will be in a position deserving a superior price range to that prevailing before the war.

RECOMMENDED BOOKS

"Medical Biometry and Statistics," by Raymond Pearl, W. B. Saunders Company, Philadelphia. (\$7.00)

As its title indicates, this volume by the late Professor Pearl is intended to present statistical methods to workers in the field of public health and medicine. However, the material would be helpful in any field of probability and statistical control.

The material is well prepared and well presented. Much of the discussion is of a technical nature and a mathematical background would be of assistance in studying the book. However, the volume is primarily an introduction and would be of assistance to most beginners in the field.

"Workers Before and After Lenin," by Manya Gordon, E. P. Dutton & Co., Inc. (\$4.00.)

This is by far the best book on actual conditions in Russia that has come to our attention. The author has obviously labored painstakingly to cull out the authentic information from the great mass of propaganda that has obscured the truth about developments in Russia for at least two decades.

After pointing out that social progress began in Russia well before the Revolution, Manya Gordon shows clearly that many social gains have been sacrificed in the interests of the Communistic experiment. Using figures so well documented and thoroughly substantiated that they hardly seem open to question, she then proceeds to prove that the standard of living of the workers in Russia has not improved as has been represented. It is clear that the mass of the people in that unfortunate country, even before Hitler's armies despoiled much of the western portion of it, were forced to exist virtually at the subsistence level.

We now know that much of Russia's productive capacity during the past several years must have been devoted to preparation for the present war. If, as appears probable, this application of Russia's productive effort will prove to have been the decisive factor in preventing complete conquest by Germany, the Russian people may well decide that such results will be worth all that they have cost. However, it will still remain a fact that the Communistic experiment is far from the success that its proponents anticipated; a road to Utopia still has not been found.

"The Way Out for America," by Charles Custer Pickert and Ralph Berland Baerman. The Institute for Christian Economic Action, St. Paul, Minnesota. (\$1.50)

This book presents a study of the underlying causes of the present war, and proposes a plan to correct the causes which lead to war. The authors state that a nation must have either trading space or living space to survive. The "have-not" nations had neither, and, for this reason, were forced to go to war to obtain the materials which they needed.

The solution proposed in this volume is to exchange the excess agricultural products of the United States for the excess manufactured products of Europe. This would result, according to the authors, in a solution of the American farm problem, and at the same time would give European "have-not" nations access to the raw materials that they need.

To prevent such an exchange from affecting adversely American industry and labor, the authors propose that the imported manufactured products be prorated among a large number of different types of factory products and, in effect, limited in such a manner that the imported manufactured goods would be used only to meet a portion of the increased purchasing power created for American farmers by the exchange. The authors have an idea worth developing, especially inasmuch as it may be helpful in overcoming protective tariff prejudices. However, like many proponents of intrinsically sound ideas, they are too hopeful that its adoption will solve most economic problems.

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