

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

W E E K L Y
B U L L E T I N

August 10
1942

54 Dunster Street, Harvard Square - Cambridge, Mass.

RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

More Light on British Economic Controls

The United States Department of Commerce has recently published a bulletin¹ on the effects of the war on British marketing, which is intended to serve as a guide for American business. Of course, no absolute parallel can be drawn between the experience with price and other economic controls in Britain and in the United States. Not only do the control measures differ in the two countries, but also the economic background in Great Britain is different from that in this country.

The general appraisal of the English experience that is incorporated in the Department's publication is similar to that published in earlier preliminary reports and was discussed in our June 29, 1942 monthly bulletin. However, there is now additional information available that has significant aspects. For example, it is evident that in England controls have been frequently avoided as they appear to be in the United States by changes in the type of goods offered to the public or by changes in the manner of their presentation. It was found in England that "the work of the British Standard Institution seems to show somewhat belatedly a recognition of the necessity for setting up standard specifications for goods that are price-controlled or rationed."

The British appear to believe that a workable system for controlling standard specifications could be established and enforced. However, examples that we have observed of the workings of such types of public supervision indicate that loopholes can be found faster than they can be "plugged" by Government supervisory boards, and that even an army of Government inspectors could not prevent an "unofficial" advance in commodity prices even when the official figures appear to indicate a satisfactory degree of stabilization.

Another interesting point brought out in the Government's latest report is the appraisal of the effects of the lend-lease program on British economy. The following is quoted from the Department's report: "The effect of lend-lease aid in retarding British price advances is especially important in that it provides for a substantial volume of consumers' goods and war material without an increase of purchasing power in the market." Of course, it is obvious that the effect of lend-lease shipments on United States economy is

just the opposite from its effect on British economy. The United States Government pays the suppliers of the lend-lease materials in Treasury checks, a portion of which represents inflationary originations, but the goods do not appear for sale in the American markets.

Another aspect of the British control system, discussed in the Department's report, concerns the attempted regimentation of trade and industry to adapt the economy to the prosecution of war. This includes the concentration of activities into nucleus firms. "By 'concentration' is meant, in current English discussions, the closing of some firms making nonessential goods, and the operation at full capacity of those firms left in the field. Restriction in operations have been caused by a shortage of raw materials and stocks of goods; in consequence many firms have been operating at considerably less than capacity. The purpose of concentration is to release plants and men for war work by reducing the number of firms operating." Endeavors by the Board of Trade to carry out such a program have been attended by considerable confusion, and apparently little progress has been made in carrying out any of the numerous plans proposed.

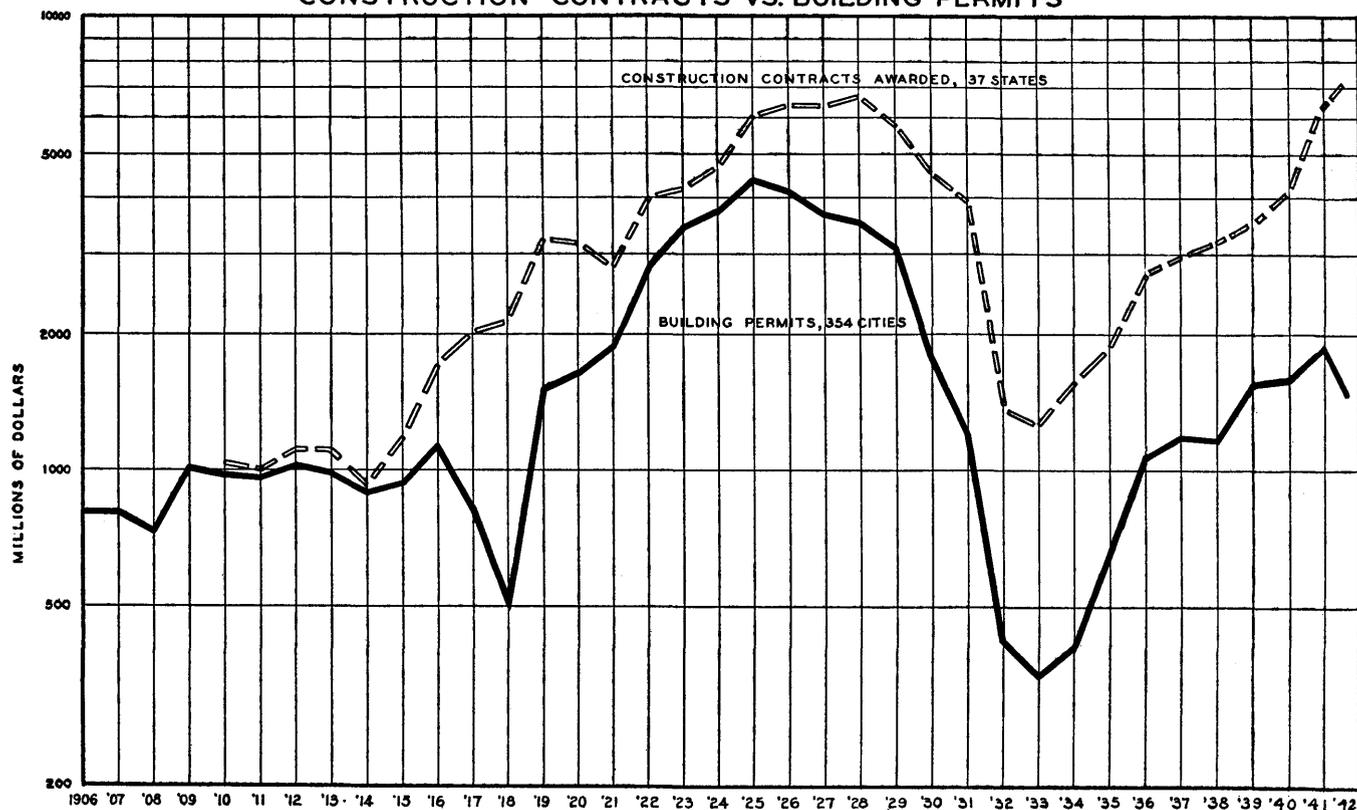
It is of course natural for the managers of private enterprises to try to maintain their separate organizations as nearly intact as possible. The individual establishments have trade marks and selling contacts, trained personnel, and other valuable assets that would be lost or seriously impaired under systems of concentration. It is therefore natural to find active opposition to government plans that might preclude the managers of small independent enterprises from reestablishing their positions in their trade or industry after the war.

As the United States increases its war effort, there will no doubt be proposals for establishing here all of the government controls that have been applied in England. There are unquestionably lessons to be learned from the British experience, and the Department of Commerce is justified in using the term "A Guide for American Business" as a subtitle of its report. However, it is to be hoped that our Government authorities understand the inevitable confusion attending the regimentation of trade and industry and will apply only such controls that are absolutely necessary to the war effort.

Notice to ANNUAL SUSTAINING MEMBERS: The 1942 edition of INVESTMENT TRUSTS AND FUNDS FROM THE INVESTOR'S POINT OF VIEW was sent to you last week. If you do not receive it within a few days, please let us know.

¹"Effects of the War on British Marketing," Economic Series No. 18, Price 15 cents.

CONSTRUCTION CONTRACTS VS. BUILDING PERMITS



Construction Contracts vs. Building Permits

The chart at the top of this page shows the trend of building permits in 364 cities, compared with construction contracts awarded in 37 states for the years since 1906 and 1910, respectively. A logarithmic or ratio scale is used in order that trends may be more readily compared. The two series are not strictly comparable, although each covers a substantial portion of the building industry. Contracts awarded indicate the volume of building that has actually started; building permits are usually issued in advance of contracts and do not necessarily indicate that the building will be erected. Therefore, the trend of building permits usually shows sharper variations than that of construction contracts.

The recovery trend in construction contract awards that began in 1934 has finally brought the level up to a position higher than the peak in the active construction year 1928. (The series shown in the chart is an annual one, and the latest period shown is the result of an estimate based on data for the first half of the year.)

The fact that building permits are not required for public works is the most important cause of the difference in trend shown by the building permits series from that of the construction contracts series. When there is a large volume of private construction being undertaken, the building-permits curve tends to advance as substantially as the construction-contracts curve. On the other hand, when the proportion of public works to total construction is large, the building-permits curve tends to decline even when the curve of construction contracts is advancing.

The much greater gain in construction contracts than in building permits recorded in 1941 was clearly

attributable to the effects of the Nation's war effort. During the early months of 1941, the value of building permits was substantially greater than the value in the corresponding months of 1940. However, after the middle of the year, a downward trend in the value of permits developed, and, during the final months of the year, they were only about two-thirds as great as they were in the corresponding period of 1940. In the meantime, construction contracts, which include Government projects in the data, continued to be reported in large volume.

The volume of building permits is still substantial, compared with the volume in the depression years 1932-1934, in spite of the decline during the first six months of 1942. However, this downward trend will probably continue. This disparity in the trends of the two curves is observable in 1917 and 1918, when the Nation was involved in the first World War. At that time, as well as during the present conflict, the volume of construction contracts continued to increase while the volume of building permits became smaller. It is encouraging to observe that the volume of building permits recovered substantially immediately after the first World War. The building industry can ultimately expect a similar revival in private construction after the present conflict ends.

It should not be forgotten that at least an appreciable part of the wartime construction undertaken by the Government cannot later be adapted for peacetime purposes. This represents part of the waste of war. From the economist's point of view, the building-permits chart presents a truer picture of the current situation than does the construction-contracts curve. Factories and commercial buildings are more productive of new wealth than are most public buildings. Our

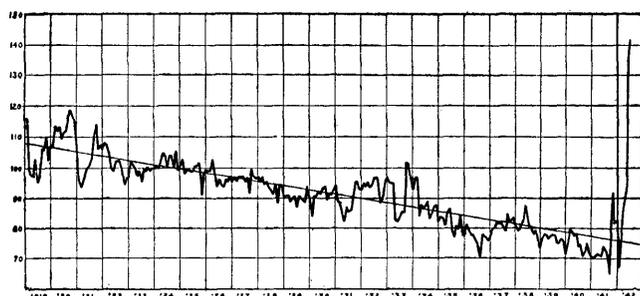
outlays for construction useful only for war must be considered as insurance for the protection of the private producers goods that the Nation has built up in the years of peace.

BUSINESS

Ratio of Retail Inventories to Sales

The Institute's chart of the ratio of retail inventories to sales that appears below is based on the Federal Reserve indexes of department-store stocks and sales. The ratio is derived by dividing the monthly index of stocks by the index of sales. The long-term trend line, which is shown running through the chart, indicates the approximate trend during the period shown and does not imply that this trend will be maintained indefinitely.

RATIO OF RETAIL INVENTORIES TO SALES



The advance of the index this year to unprecedentedly high levels is apparently the result of attempts on the part of retail merchants to stock up in goods for which they anticipate a shortage during the war period. About a year ago, the public started a buying wave in the retail stores, and the index of department-store sales for August 1941 reached the high level of 134 per cent of the 1923-1925 average. This record was later improved, when the index reached 138 in January 1942. Since then, the sales index has been declining; whereas, the index of inventories has been advancing. The following summary of the Federal Reserve seasonally adjusted indexes of department-store stocks and sales (1923-25=100) shows the influences that have effected changes in the ratio of retail inventories to sales.

| INDEXES | | | INDEXES | | |
|-----------|--------|-------|----------|--------|-------|
| 1941 | Stocks | Sales | 1942 | Stocks | Sales |
| June | 77 | 104 | January | 93 | 138 |
| July | 82 | 115 | February | 102 | 128 |
| August | 87 | 134 | March | 108 | 124 |
| September | 92 | 116 | April | 117 | 117 |
| October | 97 | 105 | May | 123 | 92 |
| November | 95 | 116 | June | 132 | 93 |
| December | 92 | 111 | | | |

It is apparent that the department stores in June held total inventories suitable for such a sales volume as they enjoyed last January. In the meantime, the volume of sales, although still substantial, decreased steadily.

Normally, this situation would forecast a serious collapse in the wholesale markets during the period when retail inventories are being reduced. However, in the present instance reduced demand for consumer goods at wholesale is being offset by demand by the Government for supplies for the Army. In many instances these are similar to goods produced for civilian

consumption, so that the same companies that have supplied goods for retail outlets can fill orders for clothing and other equipment for our armed forces. It is probable that, between now and the end of the year, manufacturers and wholesalers who supply the department stores will suffer hardships if they cannot adapt their businesses to producing supplies required by the Government. The proportion of concerns affected is probably not sufficiently great as to affect the Nation's total economy seriously. The wartime demand by the Government is so great that there is unlikely to be a general business decline such as occurred in 1938, when there was a similar but less extensive accumulation of inventories in the hands of retail establishments.

The Wartime Strike Record

During the first six months of our participation in the war, interruptions to industrial activity caused by strikes were greatly reduced, compared with losses from the same cause during the preceding six months. Nevertheless, the record was less favorable than it was during the corresponding period two years earlier.

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

WORKERS INVOLVED IN INDUSTRIAL DISPUTES
(Thousands of Workers)

| | 1939 | 1940 | 1941 | 1942 |
|-----------|------|------|------|------|
| January | 72 | 40 | 110 | 42 |
| February | 88 | 37 | 128 | 75 |
| March | 65 | 43 | 179 | 78 |
| April | 426 | 52 | 567 | 85 |
| May | 457 | 77 | 420 | 72 |
| 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 executives of the two national labor organizations have agreed to prevent strikes in plants engaged in war work, nearly all of the workers involved in industrial disputes this year have been employed on direct or indirect defense work. Most of these strikes have been so-called "outlaw" strikes, called without the avowed sanction of the central labor officials. Most of these strikes have been of relatively brief duration.

The average of less than 70,000 workers involved in industrial disputes during the latest six-month period shown in the table is an inconsiderable number, compared with the 35,000,000 employees in non-agricultural establishments that the Department of Commerce figures show as actively employed.

THE FUNDAMENTALS

Supply

The steel-ingot production rate decreased from 98½ per cent (revised) to 97½ per cent of theoretical capacity last week. The decrease in the production rate was attributed to steel-scrap scarcities and to the need for repairing some of the plant facilities. *The Iron Age* stated: "Overshadowing all recent developments is the wavering of the materials distribution setup,

which has been out of balance since the war began. WPB frantically is attempting to restore order. The WPB has long appreciated the need for better balance but apparently did not realize the thinness of supply lines to certain plants and the length of time required before procedural changes are understood and accomplished. The trend toward centralized scheduling, the approval of elimination of overtime and the extending of delivery dates on lend-lease orders are among recent moves designed to bolster the production picture. The exact amount of steel which will be needed in the last half of this year for Army, Navy and lend-lease accounts is unknown at the moment, but it will be less than the astonishingly high figure which was computed a few weeks ago in Washington."

| | 1929 | 1932 | 1937 | 1938 | 1941 | 1942 |
|---|------|------|------|------|------|------|
| Per Cent of Capacity | 94.0 | 14.0 | 84.0 | 40.0 | 99.5 | 97.5 |
| (Latest 1942 weekly data; corresponding week earlier years) | | | | | | |

The electric-power industry set a new high record for production last week, when 3,649,146,000 kilowatt-hours were generated, compared with production of 3,625,645,000 in the preceding week. The gain in output compared with production in the corresponding week of 1941 was 11.8 per cent.

| | 1929 | 1932 | 1937 | 1938 | 1941 | 1942 |
|------------------------|------|------|------|------|------|------|
| Billion Kilowatt-Hours | 1.73 | 1.43 | 2.26 | 2.12 | 3.26 | 3.65 |

Last week lumber production decreased when the seasonal trend was upward, and consequently the adjusted index declined from 123.2 in the preceding week to 118.1. On the other hand, the volume of new orders increased nearly 10 per cent last week compared with the total in the preceding week.

| | 1929 | 1932 | 1937 | 1938 | 1941 | 1942 |
|----------------------|-------|------|------|------|-------|-------|
| New York Times Index | 129.1 | 36.2 | 91.8 | 71.4 | 124.1 | 118.1 |

Demand

The Federal Reserve index of department-store sales last week was six per cent lower than the index reported in the corresponding week of 1941, compared with a gain of five per cent reported in the preceding week. Estimates of income payments made by the United States Department of Commerce were published last week for the first half of 1942. The total slightly exceeded \$52,000,000,000. Total income payments for the first six months of 1941 were reported by the United States Department of Commerce as \$41,532,000,000. Of course, this increase in income payments will not be translated into a similar increase in active demand in the consumer markets. Most civilians who have higher incomes than they had last year are devoting a considerable portion of the additional funds for tax reserves and for the purchase of War Bonds.

Prices

The sensitive wholesale commodity price indexes remained substantially unchanged last week. Moody's Spot Commodity Price Index was 230.4 on July 31 and 230.8 on August 6. The Dow-Jones Index of Commodity Futures closed at 84.60 on July 31 and at 84.65 on August 6.

Subscribers may be interested to read a brief description of the two sensitive price indexes that we quote each week in the Research Report bulletins. Moody's Spot Commodity Price Index is one of the best and most widely used sensitive wholesale com-

modity price indexes of the wholesale commodity price indexes. It is compiled by Moody's Investors Service after the close of the market in which the commodities are traded each day. Each of the 15 commodities included is given a weight in the index determined by its importance in the Nation's economy. Domestic spot prices of wheat, cotton, hogs, steel scrap, silver, sugar, wool, copper, hides, corn, rubber, silk, coffee, lead, and cocoa are included. The Index of Commodity Futures compiled by the Dow, Jones Company, Inc. is a weighted index of 11 commodities, each of which is traded on a futures basis on one of the organized exchanges. The commodities are cocoa, coffee, corn, cotton, hides, oats, rubber, rye, silk, sugar, and wheat. The value of the index is somewhat impaired by the fact that, although the important nonferrous metals are also traded in on a futures basis, quotations for them are not included.

FINANCE

Institutional Savings

Virtually all of the new funds currently available for investment by savings institutions are being employed for the purchase of Government bonds. The insurance companies still have large incomes from the receipt of premiums that far exceed total claims and other expenditures.

On the other hand, the savings departments of the commercial banks and the mutual savings banks, which in the aggregate are next to the insurance companies in importance as savings depositaries, are not in a position to purchase large amounts of Government securities except by liquidating other types of assets. During the first half of 1942 there was a decrease of \$135,000,000 in mutual savings bank deposits and a decrease of about \$650,000,000 in savings deposits of the commercial banks.

The withdrawal of deposits from savings institutions for the purchase of Government bonds does not contribute to the anti-inflation program because these institutions are deprived of funds that otherwise would be invested in Federal issues. However, it may bring the individual a better return on his investment if, as is frequently the case, the rate of interest on the Government bonds is higher than the rate paid to savings bank depositors.

SECURITIES

Bonds

Bond prices were slightly stronger last week than they have been recently. The Dow-Jones average of forty bonds was 89.19 on July 30 and 89.34 on August 6.

Stocks

Last week the stock market sank back into the lethargy that prevailed earlier in the year. Prices tended to move downward, but losses were generally limited to fractions.

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