# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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# RESEARCH REPORTS

## COMING EFFECTS OF CURRENT EVENTS

### *Industrial Manpower and the War*

The director of the recently created War Manpower Commission, Paul V. McNutt, admitted to a congressional committee that no central authority exists for deciding "What manpower goes to the Army and what manpower goes to industry." This testimony reveals that there is an extremely serious deficiency in the Government's management of the over-all war effort. It is obvious that the Nation's machine tools must be capably manned if the men in the services are to be armed with war machines. The problem of maintaining a skilled-labor force at work in industrial establishments is not separable from the arrangements for striking at the enemy with an adequately equipped field force.

Although the years of discipline and training of the German youth in preparation for the war contributed to the efficiency of Hitler's military machine, it was Germany's great industrial development that made his armies formidable enough to sweep over much of Europe. The Nazi's effort to obtain levies of skilled and unskilled workers from the conquered and neighboring countries bears out reports that Germany's industrial personnel has been drained out of industry and dispersed through the protracted offensives in Russia. Anyone experienced in modern methods of industrial production knows that these forced-labor drafts cannot restore the capacity of German industry to meet heavy production schedules and maintain the high standards requisite to a superior performance by mechanized armies.

During the past year and a half, the industry of this country, the largest and most efficient in the world, has been adapting its technology and machines to the production of war materials. It is now capable of meeting more extensive and exacting production schedules than ever before. We probably have not yet reached the maximum rate in the production of war materials, but labor shortages are now becoming a handicap to further progress of the productive capacity of important war industries. Under these circumstances, it seems essential that the activities of the Manpower Commission (or whatever agency may subsequently have direction of the mobilization of industrial workers) must be coördinated with the work of the Selective Service System.

As more and more men in the age groups that supply the labor for industry's most exacting tasks are inducted into the armed forces, it will become increasingly important to utilize the remaining labor force to its maximum practical efficiency. Mr. McNutt and other Government officials have said that it will be necessary to establish more definite machinery for control over the Nation's labor supply than is available from the more or less informal efforts of the War Manpower Commission and the Selective Service System. The Government will no doubt benefit from the longer history of experience with wartime labor control available from British reports. The International Labour Office has recently published a study of the operation of the system of allocating labor to war industries in Great Britain.[1]

This study indicates that Great Britain has been able to effect a striking mobilization of its labor resources by a gradual adaptation of the people's lives to war work, without in general inflicting undue individual hardships. It is shown that, out of an active adult population of about 33,000,000, at least 75 per cent are now effectively occupied in the armed forces, in war industry, or in other such work or service.

The report indicates that a difficult task was handled with unusual tact. Millions of people were transferred to other industries and to other localities without resorting to compulsion except in a relatively few instances. The process was attended by few complaints. This is probably explained by a statement of the Minister of Labour, who was charged with the direction of labor allocations. He said:[2] "In May 1940 . . . powers were passed to direct people, and I decided to exercise these powers with discretion. There has been an enormous amount of criticism that I have not directed people hither and thither, but it is just as easy to upset an industry by direction as to fill it by direction. Therefore the problem of selection and transference has to be handled with care, and you have to know when you are handling it the new contracts that are coming out and the districts they are going to, and see that you do not upset the whole business."

It is to be hoped that, when Government authorities in this country are vested with controls over the occupations and ways of living of a large proportion of the civilian population, they will act with as much tact as was evidently used in England.

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[1] *Wartime Transference of Labour in Great Britain*, International Labour Office, 734 Jackson Place, Washington, D. C. (paper-covered, $1.00; cloth-bound, $1.50).

[2] Pages 99–100 of report cited.

# THE FUNDAMENTALS

## *Industrial Production*

The Institute's preliminary index of industrial production for September at 162.0 was slightly higher than the revised index of 161.8 for August. The chart on page 155 shows the index for a period of nearly thirty years. The index is adjusted for long-term trend as well as for seasonal variations. The bar diagram in the lower left-hand corner of the industrial production chart shows the volume of industrial production (not adjusted) for significant periods from 1900 to date. This bar chart shows how greatly the physical volume of war materials and other goods has increased since the World War in 1917. Although the Nation's population has increased only 30 per cent since 1917, its capacity for producing goods has increased to a much greater extent. It is estimated that the total physical volume of industrial output is more than double the quantity that could be produced in the same length of time twenty-five years ago. The technical advance made in some industries, such as shipbuilding, has made possible an even more impressive production record.

Although the indexes for all of the major industrial groups included in the Federal Reserve statistical series are currently higher than the 1935-1939 base-period level, the extraordinary advance in the combined index that has occurred during the past two years has been centered in the iron and steel, machinery, and transportation-equipment industries.

The steel-ingot production rate remained unchanged last week at 98 per cent of theoretical capacity. It is reported that methods employed by the Government to direct steel shipments to war-production plants in greatest need of such supplies are not proving satisfactory. *The Iron Age* expressed the opinion that a new quota system will soon be put into effect providing for a master scheduling board to channel steel products to specified war plants.

| | *1929* | *1932* | *1937* | *1938* | *1941* | *1942* |
|---|---|---|---|---|---|---|
| Per Cent of Capacity | 82.0 | 15.0 | 77.0 | 47.5 | 93.0 | 98.0 |

(Latest 1942 weekly data; corresponding week earlier years)

Electric-power production last week exceeded output in the corresponding week of 1941 by 14.8 per cent. Total kilowatt-hours generated established a new high record for the industry, and the gain from production a year ago was larger than it has been since last spring.

| | *1929* | *1932* | *1937* | *1938* | *1941* | *1942* |
|---|---|---|---|---|---|---|
| Billion Kilowatt-Hours | 1.79 | 1.49 | 2.27 | 2.15 | 3.27 | 3.76 |

Lumber production decreased last week, and the seasonally adjusted index declined from 110.2 to 108.9 per cent of the 1935–1939 monthly average. It is reported that the downward trend of lumber production this year is a source of concern to the War Labor Board, and the product has recently been designated a critical material. The loss of labor has been the major cause of the industry's failure to meet production schedules desired by the Government, and the influence of the Federal authorities is being exerted to prevent shifts in employment in the Pacific Coast lumber camps.

| | *1929* | *1932* | *1937* | *1938* | *1941* | *1942* |
|---|---|---|---|---|---|---|
| *New York Times* Index | 120.6 | 35.5 | 85.0 | 77.7 | 125.9 | 108.9 |

## *The Harwood Index of Inflation*

The revised Index of Inflation (ratio form) for August at 130.8 was substantially higher than the preliminary Index of 126.3. The preliminary Index for September (as of September 16) is 129.6, about one point lower than the August Index. The decline in the Index was primarily caused by the transfer of checking-account deposits from private to public accounts in consequence of the collection of the third installment of the Federal income tax due September 15.

Treasury reports show that the bulk of its receipts is concentrated in the months when income-tax payments, which constitute the most important source of Government revenue, are paid. Therefore, substantial sums are drawn from private to public accounts in the months of March, June, September, and December. The deflationary influences operating in these months are usually absent in the months immediately following.

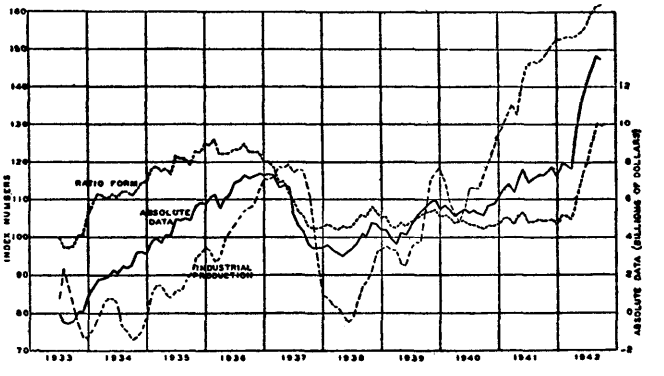
Receipts of the Federal Government are deposited to the account of the United States Treasury in Federal Reserve Banks and national and other bank depositaries. These accounts are treated in the same way that the individual employs his checking account. Income is normally deposited in the account, and bills for expenses are paid by drawing checks against the account. At the present time, Treasury expenditures are on an unprecedentedly large scale. To those who follow the daily statement of the Treasury department, and no doubt especially to the Treasury officials, the bank balances in the general fund seem literally to melt away between periodic replenishments from new large funding operations or quarterly income-tax payments.

If all Treasury receipts were derived from taxes and savings, the passage of so much purchasing media through the Treasury accounts would not be inflationary; but, in the present instance, the Treasury's income must be augmented by the expansion of commercial bank credit resulting in the creation of new purchasing media not represented by goods offered in the market.

The chart on page 155 shows the Index of Inflation in ratio form, which is the ratio of all purchasing media available for use to the portion that is not inflationary. The broken line on the same chart shows the absolute data which are the inflationary purchasing media totals. (The scale for the ratio form is at the left of the chart, and the scale in billions of dollars for inflationary purchasing media is at the right.)

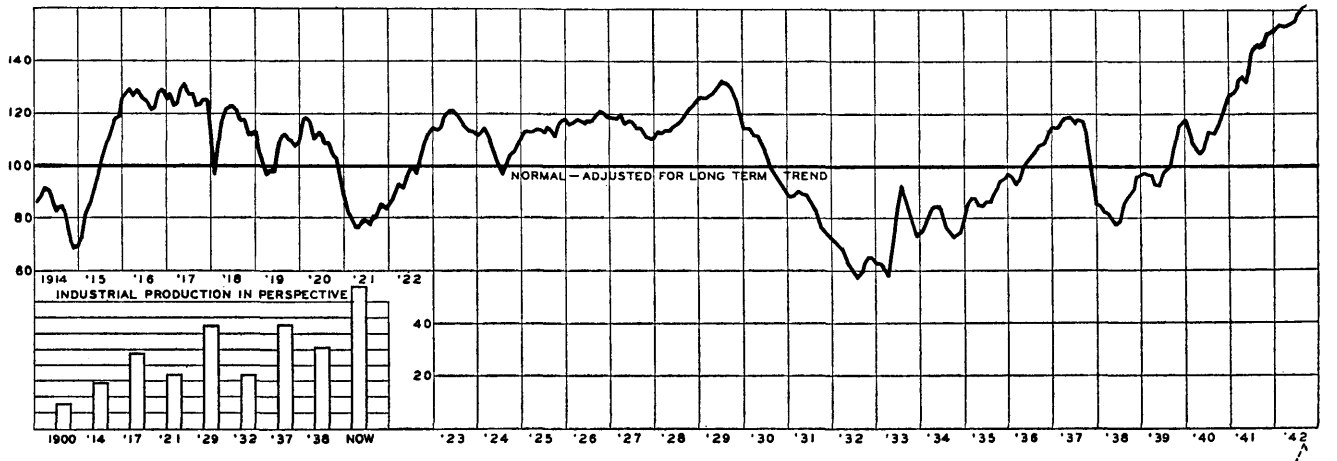
The chart below shows the two curves, the ratio form and the inflationary purchasing media (absolute data), since June 1933, together with the curve of industrial production.

**HARWOOD INDEX OF INFLATION, RATIO FORM, ABSOLUTE DATA, AND INDUSTRIAL PRODUCTION**

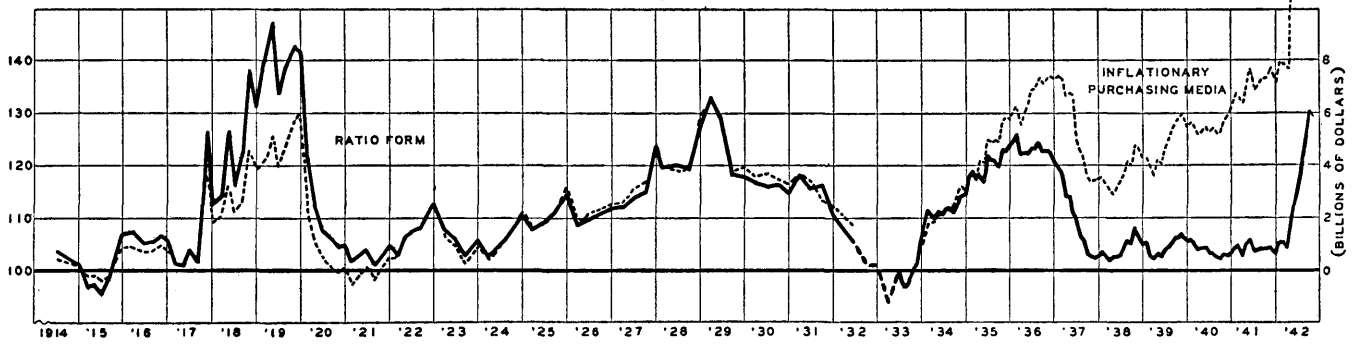



Until recent months of the war period that began in September 1939, the relative rate of expansion in the

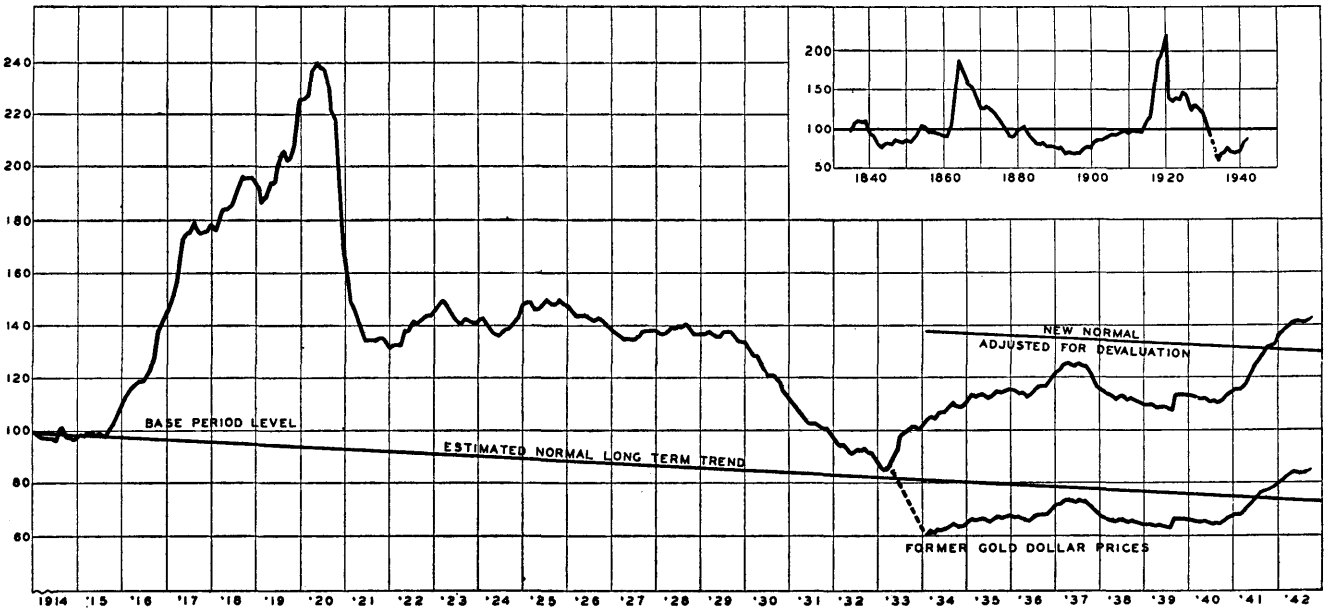
## INDUSTRIAL PRODUCTION




## HARWOOD INDEX OF INFLATION




## COMMODITY PRICES



physical volume of industrial production was greater than the rate of expansion of inflationary purchasing media. However, the situation has recently been reversed, and during the summer months of this year the money-credit curves shown in the chart have advanced more substantially than the curve representing industrial production.

The Government is now spending at the rate of about $5,000,000,000 a month, and a budgetary deficit probably cannot be avoided even in a month in which income-tax installments are due. Therefore, the Index of Inflation, when revised in accordance with data for the end of September, may show an advance from the August level, although the preliminary data indicate a decline.

*Other Demand Factors*

The Federal Reserve index of department-store sales was five per cent higher last week than it was in the corresponding week of 1941. The great demand that has been exerted in the market, because of the expanded pay rolls of war-production employees, has obscured the effects of the removal from civilian life of those now in the armed services. Although men in the Army and Navy consume more food and clothing on the average than they did in civilian life, their expenditures for other goods and services are generally smaller. The number of men leaving civilian life for the service has been large this year, and plans are evidently being made for increasing the number of men under arms from the present total of about 5,000,000 to double this number. Even in a nation having a population of 130,000,000, the disappearance of 10,000,000 from civilian life will probably have an appreciable effect in reducing demand in the retail markets.

## *Commodity Prices*

The index of wholesale commodity prices, compiled by the United States Bureau of Labor Statistics shown in the chart on page 155, is adjusted so that the 1913 monthly average equals 100. A fractional advance from the August 1942 level is indicated by the September preliminary index. After advancing virtually without interruption from August 1940 to April 1942, the combined wholesale commodity price index remained substantially unchanged during the succeeding four months. During September, the upward trend was resumed, although the increase was small compared with the monthly gains recorded earlier in the wartime price rise. The provisions of the Emergency Price Control Act were being put into effect last spring, and presumably this action was an influential factor in stabilizing prices last summer. However, after a continuous advance for so extensive a period as a year and a half prices would normally be expected to experience a temporary reaction.

The moderate advance in the combined index was primarily the result of an increase in the average price of raw materials. All of the three major economic classes, raw materials, semimanufactures, and manufactured products advanced in September, but a significant change was recorded only by the first of these three groups. The accompanying table shows changes that have occurred in the major classifications of the index. The September 1942 preliminary indexes are compared with the revised indexes of earlier significant periods.

UNITED STATES BUREAU OF LABOR STATISTICS
WHOLESALE COMMODITY PRICE INDEX
(*Monthly Average 1913 = 100*)

| | *Sept. 1929* | *Sept. 1932* | *Sept. 1941* | *Aug. 1942* | *Sept.* 1942* |
|---|---|---|---|---|---|
| Farm Products | 149.1 | 68.7 | 127.3 | 148.3 | 149.9 |
| Foods | 160.9 | 96.3 | 139.4 | 156.7 | 158.3 |
| Hides and Leather | 162.4 | 106.0 | 163.4 | 174.6 | 174.7 |
| Textile Products | 156.7 | 99.5 | 156.5 | 168.4 | 168.8 |
| Fuel and Light | 134.9 | 115.5 | 129.2 | 129.9 | 129.9 |
| Metals and Products | 110.5 | 88.2 | 108.6 | 114.4 | 114.4 |
| Building Materials | 169.0 | 124.3 | 187.7 | 194.4 | 194.5 |
| Chemicals | † | † | 109.0 | 120.0 | 120.0 |
| House Furnishings | 167.5 | 130.9 | 172.6 | 184.9 | 184.9 |
| Miscellaneous | 119.1 | 92.7 | 121.9 | 127.2 | 126.9 |
| Raw Materials | 143.8 | 81.7 | 130.8 | 146.5 | 147.7 |
| Semimanufactures | 126.2 | 81.0 | 120.6 | 123.6 | 123.8 |
| Manufactured Products | 136.9 | 101.4 | 133.7 | 142.8 | 143.1 |
| All Commodities | 137.7 | 93.6 | 131.5 | 141.7 | 142.1 |

* Preliminary Estimate. † Not Available.

With the exception of the farm products and food items, there were only minor changes in the classified subdivisions of the wholesale commodity price index in September. The miscellaneous index was the only one that showed a decline, and this was confined to a small fraction.

There was a greater disparity between the movements of the spot and of the futures commodity price indexes last week. The spot commodity price index advanced substantially, but the futures index remained about unchanged. Moody's Spot Commodity Price Index advanced from 232.04 on September 17 to 234.7 on September 24. The Dow-Jones Index of Commodity Futures closed at 85.60 on September 17 and at 85.75 on September 24.

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## Statistical Summary; Production, Purchasing Media, and Prices

| | 1941 | | | | 1942 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Sept.* | *Oct.* | *Nov.* | *Dec.* | *Jan.* | *Feb.* | *Mar.* | *Apr.* | *May* | *June* | *July* | *Aug.* | **Sept.* |
| Index of Industrial Production. | 147.3 | 148.9 | 151.3 | 152.0 | 152.7 | 153.4 | 153.2 | 153.9 | 154.5 | 156.0 | 159.3 | 161.8 | 162.0 |
| Index of Inflation (Ratio Form) | 104.3 | 104.4 | 104.6 | 103.1 | 105.8 | 105.3 | 104.8 | 111.0 | 116.1 | 119.7 | 125.1 | 130.8 | 129.6 |
| Commodity Price Index..... | 130.9 | 131.4 | 132.5 | 134.1 | 137.5 | 138.5 | 139.8 | 141.4 | 141.5 | 141.3 | 141.4 | 141.7 | 142.1 |
| Commodity Price Index..... (In terms of former gold dollar) | 77.4 | 77.8 | 78.4 | 79.3 | 81.4 | 82.0 | 82.7 | 83.7 | 83.7 | 83.6 | 83.7 | 83.8 | 84.1 |

*Preliminary Estimate.