

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Free vs. Forced Collaboration

The news of our armed forces' action in North Africa came as a great stimulation to the home front. Its effects were immediately felt throughout the country, but its most important influence will be experienced in the more distant future. The French people can no longer tolerate the anomalous position in which they have been held since 1940 as a conquered nation collaborating with their conquerors. We are confident that they will choose to join with us when and where they can in the process of exterminating the Hitler regime.

As an influence on other nations, the move has great chances of success under our auspices. The United States is freer than any other great nation from suspicion of ulterior motives in the occupation of foreign soil. Our troops may be viewed more as deliverers than invaders by the Continental French as well as by those in Africa, and the same response may be found in other lands through which we may operate in the future.

It is not at all likely that the United States will become an imperialistic Nation after the war, although there is little chance that we shall return to an isolationist policy. Our strategy during this war suggests that we may want permanent bases for military operations scattered throughout the world until saner international policies become general. Nevertheless, our past history should afford a guarantee that these will be obtained through negotiations, rather than by arbitrary seizure.

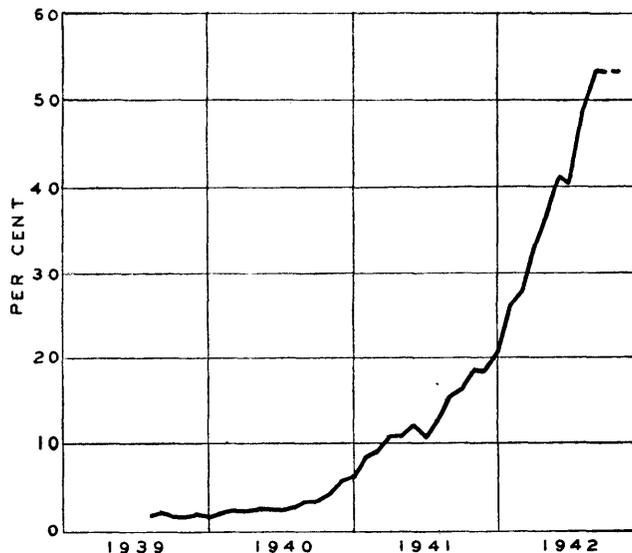
War's Share of Economic Activity

Within a period of less than two years, the great resources of this Nation's economy have been so extensively mobilized for the prosecution of war that more than half of all our activities is now being devoted to the major objective of winning the conflict. Production for war activities is not shown separately from production for private use in data published by the United States Department of Commerce. Furthermore, the great diversity in the units of materials produced makes it impossible to derive a common denominator expressed in physical terms for the war effort. However, statistics expressed in dollars provide a rough measure of the extent to which the Nation's productive capacity has been diverted from peacetime utility to the creation of a striking force for war.

Expenditures for war activities, expressed as a per cent of the Nation's total income payments (which include payments for war activities in the total), are plotted in a monthly series on the accompanying chart.

The period covered begins in July 1939 just before the start of the war in Europe, and the latest point shown represents October 1942. Only preliminary estimates of income payments are available for the last month, although expenditures for war activities are known.

PER CENT OF TOTAL INCOME
FOR WAR ACTIVITIES



The rate of war spending increased most rapidly during the first half of this year. These expenditures have continued to increase during the past few months, but the rate of increase has been less than it was earlier in the year. Income payments have increased substantially during the period shown on the chart, but the percentage increase has been much smaller than the expansion of war spending. The statistical summary on page 182 shows the expenditures for war activities for each month for the first ten months of 1942, as reported by the United States Treasury. Estimates of total income payments, made by the United States Department of Commerce, are also shown. The income payment figure for October is a preliminary estimate.

Statements published in England indicate that from 50 to 60 per cent of British economic activity is devoted to the war effort, and it is apparent that the same situation is being approached in the United States. The recent leveling off in the trend of the chart does not necessarily indicate that the limit has been reached in the diversion of the Nation's civilian activities to those

Months	Expenditures for War Activities	Income Payments
1942	(In Billions of Dollars)	
January	2,101	8,143
February	2,201	7,952
March	2,797	8,693
April	3,231	8,784
May	3,553	8,622
June	3,823	9,537
July	4,494	9,329
August	4,882	9,157
September	5,384	10,128
October	5,481	(Est.) 10,300

for war, but further progress in this process will probably be more moderate than it was during the first months after we entered the war.

Sources of Business Information

In 1940 we published a series of articles in the Research Report bulletins under the title "Sources of Business Information." In this series, we listed the agencies that compiled authoritative business statistics that might serve to guide executives in their problems of policy-making and discussed the significance of the data collected and the manner in which it might be used. Although there have been no subsequent changes in the essential value and application of business statistics, the war has in some instances affected the flow of data normally available to the executive. In this issue we shall discuss briefly, in the order followed in the series of articles mentioned, changes that have occurred in the availability of statistics because of the war or for any other reason.

As we pointed out two years ago, Government agencies and quasi-Federal agencies, such as the Federal Reserve System are the most important means for obtaining authoritative business statistics. The war has not interrupted the publication of the United States Department of Commerce's *Survey of Current Business* nor the *Federal Reserve Bulletin*, the two leading sources of business data, although some of the series that were formerly regular features of these publications have been discontinued for the duration of the war.

The Federal Reserve index of industrial production and the production and trade indexes, compiled by the Federal Reserve Bank of New York, are now the only comprehensive and authoritative measures of the physical volume of manufacturing activity in the United States published in monthly series and available to the general public. However, data for important subdivisions of the Federal Reserve index, such as pig-iron production, nonferrous mining, transportation-equipment industries, and other metal industries, are no longer reported separately. Inasmuch as the production of these industries at present constitutes perhaps the largest share of the Nation's total production, it is apparent that the war has necessitated the withholding of important information concerning production trends in the country.

Most of the data concerning the Nation's domestic trade are still published, but information relating to communications, for example, the telephone service, is now delayed. There is no restriction on the publication of data concerning commodity prices. However, Government restrictions on the operation of commodity exchanges tend to modify somewhat the value of the sensitive wholesale price indexes that are based on the quotations of these markets. The United States Depart-

ment of Labor's wholesale price index that includes 889 quotations is still the foremost price indicator in existence, but the Government agency is no doubt encountering difficulty in maintaining the comparability of its price records when dealers are attempting to adapt higher production costs to a condition of imposed ceiling prices, which can frequently be accomplished only by changes in quality. The authoritative cost-of-living index, compiled by the National Industrial Conference Board, was begun at the time of the first World War and remains the standard index of its kind, but its calculation is subject to difficult adjustments for concealed increases in living costs.

The suspension of publication of foreign-trade data constitutes the most serious gap in trade statistics during the war period. Although the Department of Commerce continues to make public the value of total exports and imports, the release of these data is delayed, and reports by separate commodities and separate destinations are no longer made public. Information regarding the volume of waterway traffic through the Nation's most important canals has also been discontinued for the duration of the war.

The war has not interfered with the availability of financial and investment information (except data that might reveal significant information about war contracts). Condition statements of the banks are published as fully and as promptly as they were before we entered the war. Although financial operations of governments are frequently held secret in times of war, the management of the Federal Government's finances is revealed in this country in reports issued by the United States Treasury and by the Board of Governors of the Federal Reserve System. The only restriction that has been imposed during the present conflict is that relating to the publication of information respecting imports and exports of monetary gold.

As an offsetting factor to wartime restrictions in the dissemination of business statistics, the United States Department of Commerce is systematically making new studies relating to important economic activities of the Nation. Presumably this program will be continued in the future. Recent examples of new statistical series developed by the Department are the indexes of total commodity and passenger transportation (discussed in the October 12, 1942 Research Report bulletin) and the studies of wartime trends in civilian employment (see the November 9, 1942 Research Report bulletin). It appears probable that, after the war is over, Government and other agencies will make available to the country's business executives a more comprehensive body of business information than has ever before been obtainable.

THE FUNDAMENTALS

Supply

There was a decrease in the steel-ingot production rate last week from 100 to 99½ per cent of theoretical capacity. The slight contraction in operations was attributed to the necessity for closing down some furnaces for repairs that have been operating to the limit for an extended period. *The Iron Age* stated: "Inefficiency in channeling steel and other vital metals into the most urgently needed war weapons will less likely be tolerated now that the nation has started a large-scale invasion, certain to develop into a shooting war,

with great destruction of equipment. Evidence that the United States was entering a more active phase of the war has been apparent in war plants for some months. While it could not be published, the information that an attack in force was not far off became particularly evident in the second week of October which saw highly significant diversions in steel distribution."

	1929	1932	1937	1938	1941	1942
Per Cent of Capacity	73.0	19.0	37.0	62.5	97.5	99.5

(Latest 1942 weekly data; corresponding week earlier years)

Electric-power production for all sections of the country combined maintained the same rate of gain (11.7 per cent) compared with output during the corresponding period last year that was recorded in the preceding week. Electric-power data for the separate regions of the country reveal the extent of the progress that has been made in the wider distribution of war production throughout the country. During the prewar armament period and in the first few months of our participation in the war, the expansion in the use of electric power was concentrated in the industrial regions of New England, the Middle Atlantic states, and the Central Industrial region. Now the largest gains are reported from the Pacific Coast and West Central areas and from the Southern States.

	1929	1932	1937	1938	1941	1942
Billion Kilowatt Hours	1.79	1.52	2.18	2.21	3.37	3.76

Lumber production decreased moderately last week, but the contraction was less extensive than the seasonal adjustment, and the index advanced from 119.1 in the preceding week to 120.7 per cent of the 1935-1939 monthly average.

	1929	1932	1937	1938	1941	1942
New York Times Index	127.2	36.7	65.7	65.8	124.0	120.7

Demand

There is little basis on which to predict the effect of the increase in the war's tempo on demand in our domestic markets. The upward trend in retail sales that was in progress during the early months of the war period beginning in September 1939 was halted and for a time reversed during the Dunkirk evacuation of the British Army from Europe and the period when French resistance was collapsing. Equally spectacular news of a favorable character might have a less seriously adverse effect on domestic trade, but some decrease in consumer demand may be anticipated whenever the public's attention is absorbed by news of great import to the Nation. If, as now seems probable, United States forces continue to operate in a large-scale war of maneuver, the holiday trade will probably fall short of earlier expectations, but the effect should not be of major extent unless we suffer reverses.

Prices

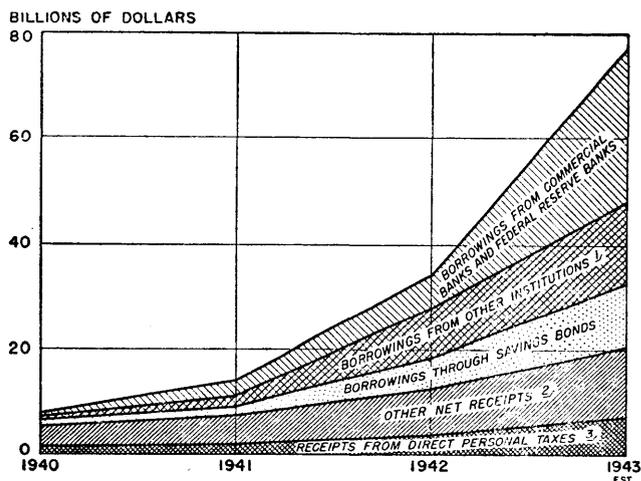
There was little significant change in commodity price futures last week but spot prices were lower. Moody's Spot Commodity Price Index was 233.7 on November 5 and 231.9 on November 12. The Dow-Jones Index of Commodity Futures closed at 85.05 on November 5 and at 85.17 on November 12.

FINANCE

Finding Funds for the War

In a recent discussion of the Nation's wartime financing records, the United States Department of Commerce points out the dangers of the inflationary gap that we have frequently described in preceding Research Report bulletins. The accompanying chart, prepared by the Department of Commerce, affords another approach to an insight into the inflationary processes, the statistical records for which are contained in the Harwood Index of Inflation that is regularly published in the monthly Research Report bulletins and the Institute's chart of sources of purchasing media that appears on page 184 of this issue.

SOURCES OF FEDERAL INCOME BY FISCAL YEARS



The Department of Commerce points out that the upper section of the chart and a portion of the second section represent the inflationary part of the war financing, and it is clear that this portion is increasing with great rapidity. There is an extensive description of our war-financing program in the article mentioned¹ that sets forth the aspects of Federal finance that we have many times emphasized. However, the views expressed presumably are representative of those held by authoritative officials of the Treasury Department, and the following summary of the article's conclusion should be significant:

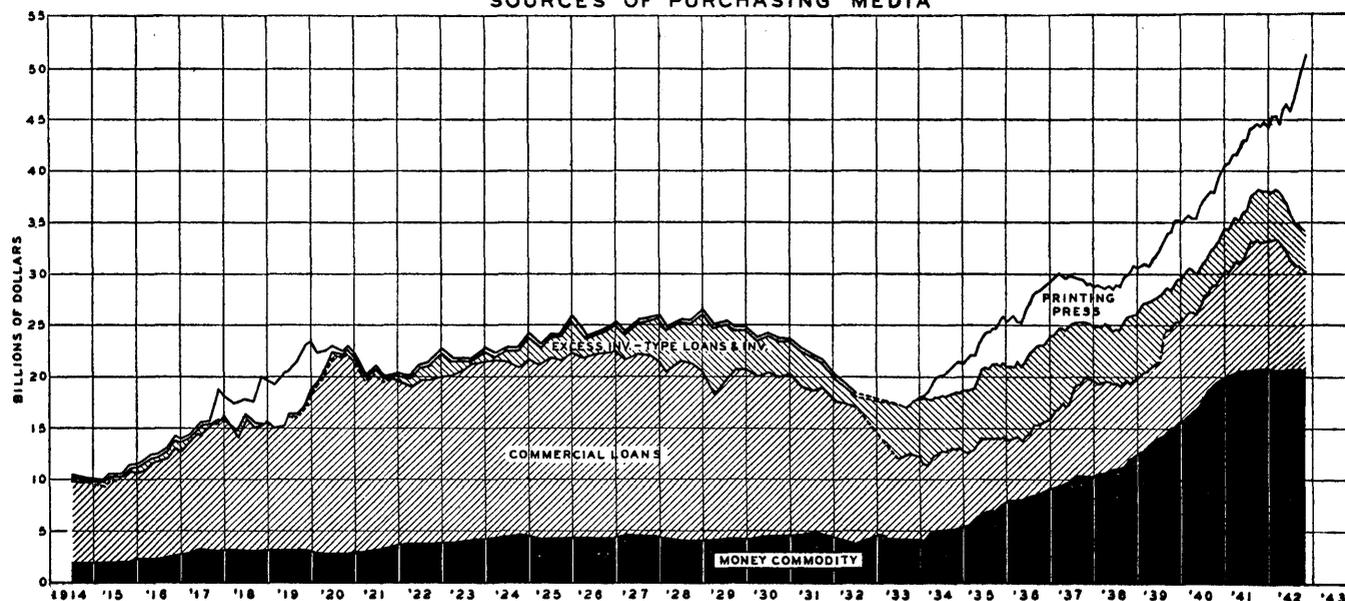
"The war should be financed as largely as possible though not entirely by taxation. This obviates inflation, minimizes postwar debt problems, and lessens the necessity for extensive and prolonged price controls and rationing throughout the entire economy.

"Any remaining excess purchasing power in the hands of individuals should be absorbed by Government bond purchases—made compulsory if and when necessary. Unless the bonds so bought immobilize purchasing power until such time as it can safely be released, the object of their sale is to that extent defeated.

"Funds needed by the Government over and above those raised by taxation and by bond sales to individuals can be raised by bond sales (perhaps compulsory, though here compulsion is less necessary for obvious

¹"Alternatives in War Finance," *Survey of Current Business*, October 1942, pages 15-22.

SOURCES OF PURCHASING MEDIA



reasons) to corporations, insurance companies, savings banks, fiduciaries, etc.”

Sources of Purchasing Media

There was another substantial increase in aggregate purchasing media during October 1942, bringing the total expansion since we entered the war to \$6,500,000,000 and representing an increase of 14 per cent since November 1941. During most of this period purchasing media derived from noninflationary sources have remained about unchanged or have decreased at a time when purchasing media from the major inflationary source, the Government printing press, have been expanding.

There was a small decrease in purchasing media from the money-commodity source last month, but it was too minor to affect the existing large total appreciably. It is apparent that the Government has been shipping moderate amounts of gold out of the country, because domestic production would otherwise have increased the total supply. The Government's action to suspend gold mining in the United States will not cause a complete drying up in the supply from domestic sources, because the metal is also produced as a by-product of other mining operations.

There was a moderate decrease in purchasing media derived from commercial loans last month. Apparently this type of loan for nonessential purposes is being paid off more rapidly than loans are being made by the banks to finance essential war projects.

There was a decrease of about \$100,000,000 last month in purchasing media derived from the third source (created by an excess of investment-type assets representing tangible property with respect to the savings available to the banking system). The decrease from this source was caused by the retirement of Government-guaranteed issues held by the commercial banks.

Inasmuch as purchasing media from the first three sources, shown in the chart at the top of this page, decreased last month, it is obvious that the considerable increase in total purchasing media was entirely attribut-

able to the Government printing press. During October, the Federal Government increased its debt by approximately \$6,000,000,000. Of this total, approximately \$1,500,000,000 represented the sale of War Savings Bonds and tax-anticipation notes, neither of which processes is inflationary. A \$2,000,000,000 issue of two per cent Treasury bonds was sold partly to the commercial banks and partly to individuals and corporations. The remainder of the new debt comprised Treasury notes and Treasury bills, most of which were purchased by the commercial banks, in payment for which the Treasury was given checking-account credits. As we have previously pointed out, these become inflationary purchasing media when they are disbursed to the public by the Government.

SECURITIES

Bonds

Bond prices declined steadily last week, but the aggregate loss was not great. The Dow-Jones average of 40 bonds was 91.19 on November 5 and 90.70 on November 12.

Stocks

Without being at all pessimistic about the war, it does seem rather premature for the stock market to stage a peace scare. That is obviously what occurred last week. It may be recalled that there were similar incidents during the course of the first World War. Furthermore, when peace actually came, investors who had disposed of “war stocks” could not replace them at the same or a lower price level until 1921.

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