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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Will Food Rationing Work?

Many misgivings accompanied the Nation's adoption of a comprehensive food-rationing program. It is small wonder that a large section of the civilian population (the city dwellers) is anxious about the future. It is unfortunately characteristic of rationing that it will function smoothly only when there is enough supply to meet the people's minimum reasonable needs. Its weakness is revealed when the condition of commodity scarcities drives individuals to evade the system set up to insure equitable division of the inadequate supply.

Unless the situation is handled with a greater degree of tact and ability than has so far been shown, a colossal food-rationing muddle is in the making. The possibilities that confront us are suggested by a recently published report concerning the wartime experience in France.¹ The lessons that the author states can be drawn from this report are that even moderate success in price control and rationing necessitates a large and competent enforcement staff. No special group in the population must be favored. Because it is impossible to prevent black markets, controlled prices combined with rationing fail to insure the equitable distribution of scarce commodities.

The many methods of evasion and the reasons why food control has been unsuccessful in France are too numerous to summarize here. However, a major conclusion of the study is that France is too large a Nation of too greatly diversified elements to be subjected to an overall system of control. When it is considered that the continental United States has three times the population and fourteen times the area of continental France, the comparison suggests that we are faced with a task that will require better methods than were applied abroad.

The Government has imposed food rationing on the country without the psychological preparation that is essential to a satisfactory degree of compliance. We have not yet been assured that all means have been exhausted to provide us with adequate supplies. With heavy requisitions for our own and Allied armies, we are ready to accept a substantial decrease in supplies available for civilian consumption, but in many instances, such as in the case of butter and meat in many sections of the country, supplies for the average individual have been almost entirely cut off.

¹ "French Price Control from Blum to Petain," by Louis Franck, The Brookings Institution.

Government regulations are obviously to blame for at least a part of this drying up in supply. When raw-material prices are uncontrolled and the finished-products prices are controlled, the finished goods must necessarily disappear from the market during a period of rapidly advancing prices. This situation has existed with respect to livestock and meat supplies. It is at least encouraging that the Price Administrator announced last week that he would adapt price ceilings in various areas so as to permit profitable legitimate dealings in pork and beef.

When the people have the idea that they are not being justly treated, that is, that they are not getting what is their right, they will not recognize the authority of laws or executive "directives" and will find self-justification for dealing with the racketeers who stand ready to take advantage of any situation to make abnormal profits. The same psychology applies to legitimate dealers who feel themselves squeezed between rising costs and fixed selling prices and therefore justified in making unofficial transactions.

It is a simple solution of any snarl created by Federal incompetence in handling a supply-price situation to brand as treasonable anyone trying to preserve his means of existence by methods not recognized as legitimate by the controlling bureaucracy. It is a great temptation to reach for the club to smite opposition rather than to analyze the situation with regard to the possibility of removing deterrents to the normal functioning of the economic system.

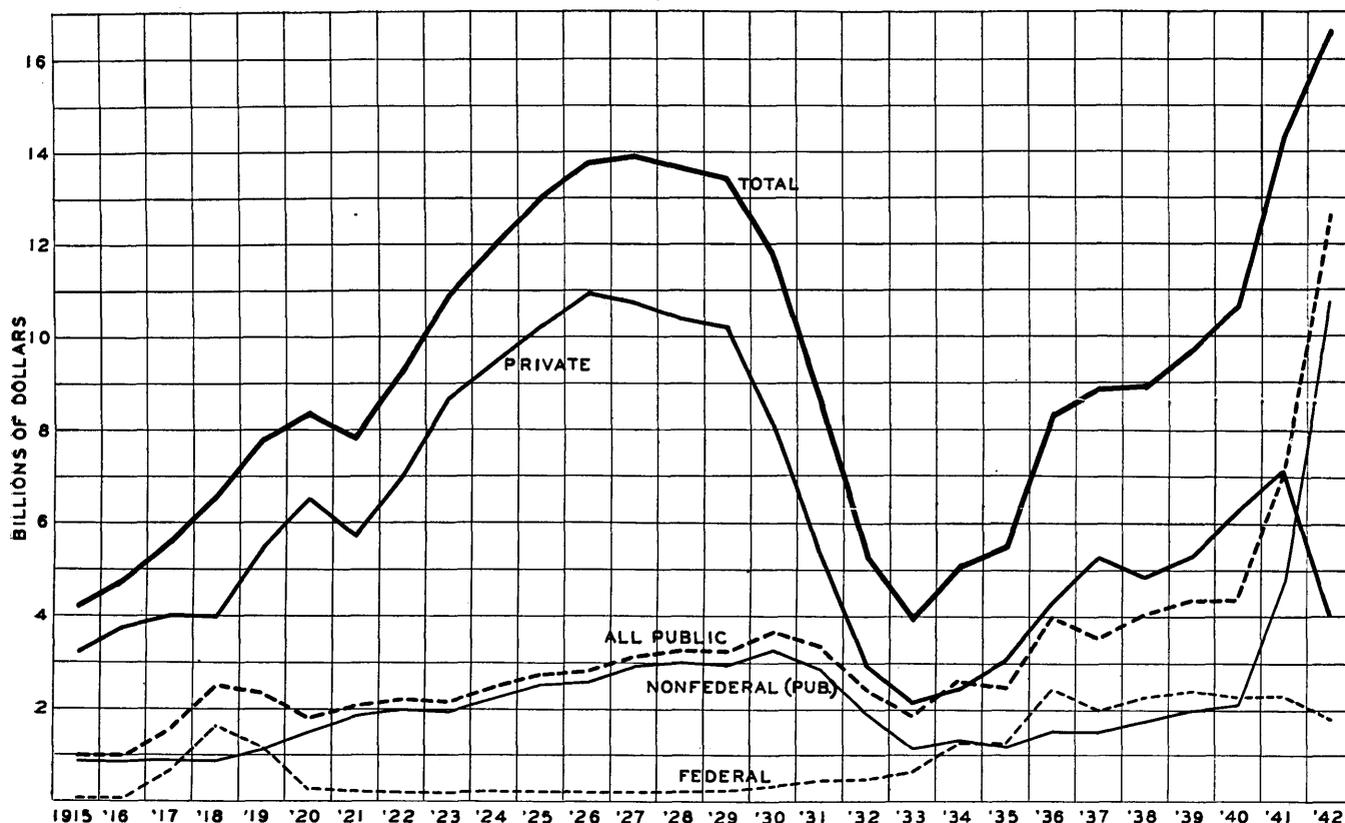
Last week we heard the familiar cry from New York that typifies the attitude of a strong State toward an errant people. In proposing means for controlling black markets within his jurisdiction, Mayor LaGuardia of New York stated: "We ought to impose stiff prison sentences for anyone caught in possession of unauthorized food. Maybe capital punishment may be held in the offing." We have emphasized again and again in our bulletins and publications that the economic system cannot be held within a pattern to which the great body of the people do not subscribe wholeheartedly. Throughout the history of the world, even the most powerful and ruthless governments have been unable to change human nature.

BUSINESS

Annual Construction and Maintenance

The accompanying chart presents estimates of all construction and maintenance costs in the United

ANNUAL CONSTRUCTION AND MAINTENANCE COSTS



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 devices and elevators) but not of factory machinery and other movable equipment, shipbuilding, and land. Highway construction also comprises a portion of the totals shown.

The subdivision, showing public and private construction, the former broken down into Federal and non-Federal construction, is especially significant at the present time. Until the great depression, the value of private construction greatly exceeded the value of public construction, except during the year 1918 when our war efforts caused a considerable increase in Federal undertakings and a curtailment of private building operations. The boom in the construction industry that followed the conclusion of the first World War was concentrated in private building, but the trend of non-Federal public building was also upward during the years 1918-1930. After the first World War, the annual volume of Federal construction remained somewhat greater than it was before that conflict, but it was nevertheless relatively unimportant. It was not until the depression of the 1930's that the volume of Federal construction assumed a definitely important place in the building industry over an extended period of years. During the recovery period preceding the outbreak of the second World War, the volume of all public building was about 45 per cent of the total (1934-1941).

After we entered the present war, private construction and maintenance were sharply curtailed and

decreased from a total of \$7,212,000,000 in 1941 to approximately \$4,000,000,000 in 1942. Non-Federal public building also decreased during 1942, primarily because political subdivisions could not obtain materials for such projects as new buildings, water supply and sewage systems, and street and road improvements. The great increase in Federal construction and maintenance costs from \$4,800,000,000 in 1941 to about \$10,800,000,000 in 1942 affords a sharp contrast to the trend of the private and the non-Federal public construction enterprises. The Federal undertakings were of course directly or indirectly concerned with the war and include factories, shipyards, emergency housing, and necessary roads. After the war, the relative trends of the Federal construction and the private and non-Federal public-building series will presumably be reversed.

The considerable longevity of most types of buildings and engineering projects has apparently resulted in creating a cycle of construction activity that is more extensive in duration than the ordinary business cycle. Statistical studies made by the United States Bureau of Foreign and Domestic Commerce show that the complete cycle of construction activity extends from fourteen to twenty years. The recovery phase of such a cycle had started in 1916 but was interrupted during the period of our participation in the first World War and was again interrupted briefly during the primary postwar depression in 1921. Thereafter, the volume of building increased substantially until a crest was reached during the period 1926-1929. Annual construction and maintenance costs attained unprecedented heights during these years. The cyclical upswing in

construction activity was financed partly by inflationary methods and coincided with stock-market and land speculations.

Apparently a normal recovery of construction activity began in 1934, following the sharp curtailment that reached a low point in 1933. As in 1917 and 1918, the recovery phase of the private construction cycle was interrupted when we entered the war in 1941. It had at that time a duration of eight years. It is highly probable that the upward phase of this cycle will be resumed after the conclusion of the present hostilities. Some of the building operations that the Government has undertaken during the war will be available for postwar use, but this will not apply in general, and a housing shortage in many areas of the country will confront the homecoming of our armed forces.

It is too much to expect that the pattern followed by the curve of total annual construction and maintenance costs after the first World War period will be followed again. The 1942 record was made possible by Federal building projects that far exceeded the volume undertaken during the first World War. These should and must be sharply curtailed with the coming of peace. Even though as expected there will be a substantial revival of private building after the war, it will probably be insufficient to offset the decrease in Federal projects. A satisfactory volume of new construction and maintenance in the postwar period would be one that compares favorably with the 1940 level even though it falls short of the 1927 and 1942 records.

The 1942 Strike Record

Strikes in war plants during 1942 have in isolated instances threatened serious impairment of the Nation's war effort, but these have not developed into any widespread movement, and the Nation's strike record for the first year of hostilities compared very favorably with that for 1941 when the Nation was developing its national defense program. The following table shows the number of workers involved in industrial disputes during each month of the past four years.

	WORKERS INVOLVED IN INDUSTRIAL DISPUTES			
	<i>(Thousands of Workers)</i>			
	1939	1940	1941	1942
January	72	40	110	49
February	88	37	128	80
March	65	43	179	80
April	426	52	567	85
May	457	77	420	72
June	127	56	227	117
July	212	83	226	100
August	119	90	305	100
September	104	108	358	90
October	140	108	348	66
November	130	102	339	65
December	37	62	59	61
Average	165	72	272	80

Strike statistics covering the first World War period are not strictly comparable to those now published by the Bureau of Labor Statistics, but estimates indicate that losses because of strikes were then more serious than they have been during the present conflict. The following brief summary shows the monthly average of workers involved in industrial disputes during the earlier period.

Year	Thousands of Workers	Year	Thousands of Workers
1914	52	1918	103
1915	76	1919	347
1916	160	1920	122
1917	102		

In general, the strike record for 1942 is comparable to that in 1918 in respect to the Nation's position in carrying out military operations. The average number of workers involved in industrial disputes in 1942 was 80,000, compared with 103,000 in 1918. The record is more favorable than the data indicate, inasmuch as there is now a larger labor force than was employed during the earlier period. An analysis of the history of strikes during the first World War indicates that the newly organized and militant IWW was responsible for the most serious strike interruptions. At the present time, the two national labor organizations, the American Federation of Labor and the Congress of Industrial Organization, represent virtually the entire body of union employees. Although certain unions affiliated with these organizations have exhibited characteristics typical of the first World War International Workers of the World, there is no integration of these "dissident" elements.

Just before our entrance into the present war, there was active rivalry between representatives of the two national union organizations accompanied by jurisdictional disputes and demands for the closed shop and the check-off. This situation aroused so much public protest that Congress threatened to pass restrictive anti-strike measures. After we entered the war, the sentiment in Congress was appeased by the assertion of organized-labor leaders that strikes have no place in war time, and, as long as this policy is generally adhered to, the existing Federal labor legislation will probably remain substantially unchanged while the war continues.

At the present time, absenteeism, slow-down tendencies, and union make-work restrictions (popularly referred to as featherbedding) are subjects of Government and public attention to a greater extent than are industrial disputes. Make-work regulations, designed for periods when the rate of unemployment is high, are especially inappropriate in a wartime economy or even in a normal economy. However, it is difficult to eliminate such privileges even when the workers admit that the original justification for such union rules no longer exists. The organized-labor leaders claim that they would never be able to impose the restrictions again if they are once suspended. In respect to absentee and slow-down tendencies, we expressed our opinion in the February 22 bulletin that these will largely disappear when our participation in the conflict becomes more extensive.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week remained unchanged at the preceding week's rate (revised) of 100 per cent of theoretical capacity. *The Iron Age* expressed the opinion that the Government would exert extreme pressure on the steel mills for new production records in March. Such a move is to be expected in view of the importance of steel supplies to the program for enlarging the sphere of military operations announced by the President after the Casablanca meeting.

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	93.0	26.0	85.0	30.0	96.5	100.0
	(Latest 1943 weekly data; corresponding week earlier years)					

Electric-power production last week was approximately the same as it was in the preceding week. The gain from output in the corresponding week of 1942 was 14.2 compared with a gain of 15.3 recorded in the week before. A year ago at this time, industry was in the early stage of adaptation to the active war program, and there was consequently a substantial increase in the use of electric power.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.70	1.52	2.20	2.04	3.41	3.92

Lumber production increased last week, and the adjusted index advanced from the preceding week's level of 103.6 to 110.9 per cent of the 1935-1939 monthly average. The industry's operations have increased substantially since the beginning of February when the index was at the lowest level recorded since early in 1938. Nevertheless, production is currently 16 per cent less than it was a year ago at this time. The volume of new orders is at present about 25 per cent greater than production.

	1929	1932	1937	1938	1942	1943
New York Times Index	131.9	38.4	80.4	64.6	132.0	110.9

Demand

There are evidences that the public has recently become less discriminating in its purchases than it was in preceding buying waves. When desired goods cannot be obtained, shoppers have taken merchandise simply because it is now available and may later disappear from the stores. Such indiscriminate buying is not general, but the fact that it has appeared at all is significant. The urge to acquire goods regardless of immediate or prospective need is typical of the explosive stage of an inflationary progression.

Prices

Last week the sensitive wholesale commodity price indexes continued the upward trend that was evident during the preceding fortnight. Moody's Spot Commodity Price Index was 246.0 on February 25 and 248.9 on March 4. The Dow-Jones Index of Commodity Futures closed at 90.67 on February 25 and at 91.60 on March 4.

FINANCE

New Capital Issues

The volume of new corporate financing was fairly well sustained during the first three quarters of 1942 but thereafter was reduced to nominal proportions, and the total for the final three months of the year was only four per cent of the average for the first three quarters. This drying up in the flow of new capital into industry evidently coincided with the substantial completion of privately financed war-production plants and extensions. Total new capital issues in January 1943 were only \$3,000,000, an even smaller amount than the average for the last three months of 1942. The virtual cessation in the flow of capital into private industry that has occurred in recent months will probably typify the situation during much of the remainder of the war.

New corporate financing in January during each of the past eighteen years is shown in the following summary.

NEW CORPORATE FINANCING IN THE UNITED STATES

	<i>(In Millions of Dollars)</i>			
Year	January	Year	January	
1926	510	1935	5	
1927	490	1936	73	
1928	372	1937	96	
1929	551	1938	46	
1930	566	1939	5	
1931	400	1940	36	
1932	47	1941	53	
1933	22	1942	73	
1934	6	1943	3	

Source: *Commercial and Financial Chronicle*.

During the postwar period, corporations will need funds to finance the readaptation of manufacturing facilities to peacetime requirements. Furthermore, there will be many new products that can be profitably manufactured as soon as raw materials become available for private enterprise. The volume of consumer credit has been greatly reduced, and its subsequent expansion will promote heavy demand for consumer goods. In many instances, an enlarged volume of private financing will be prerequisite to the accumulation of an adequate supply of producers goods. Unless Government restrictions are so great as to limit the market for private corporate securities after the war, it is possible that the volume of new capital issues will increase to levels comparable to those existing in the predepression era.

SECURITIES

Bonds

Speculative bonds were especially strong last week, and the turnover in listed issues was unusually heavy. The Dow-Jones average of 40 bonds advanced from 93.68 on February 25 to 94.12 on March 4.

Stocks

Last week's advance in the stock market, accompanied by a substantial increase in the volume of transactions, was unmistakably motivated by inflation psychology. Under such circumstances, warnings of technical market weakness are no more heeded than are advices that the market is oversold when a bear panic is in full swing. Adherence to sound investment principles is especially advisable during periods of wide fluctuations in security prices when the temptation to deviate from them is greatest. This is not the time to endeavor to catch the short swings merely because the operation would be profitable if it could be successfully carried out. Such practices usually lead the investor to abandon the kind of program best fitted to meet the establishment and maintenance of a dependable savings fund.

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