

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *The Power to Induct Labor*

The President's statement issued last week on the coal-mining situation indicates that he has been forced into advocating a step in which there are dangerous potentialities. The following are the two concluding paragraphs of the President's statement:

"Before the leaders of the United Mine Workers decided to direct the miners to return to work, the government had taken steps to set up the machinery for inducting into the armed services all miners subject to the selective service act, who absented themselves without just cause from work in the mines under government operation.

"As the selective service act does not authorize the induction of men above 45 years into the armed services, I intend to request the Congress to raise the age limit for non-combat military service to 65 years. I shall make that request of the Congress so that if at any time in the future there should be a threat of interruption of work in war plants, mines or establishments owned by the government, or taken possession of by the government, the machinery will be available for prompt action."

It is futile to recall that the difficult labor situation is a directly traceable outgrowth of the President's acceptance in the past of the political influence of the labor group that is now creating one of our most serious domestic problems. The Administration has hesitated so long about curbing organized labor's special privileges that drastic action is now the only course that holds the possibility of being effective.

During the first World War when strikes at times menaced the Nation's productive effort, a considerable popular sentiment for a "work or fight" policy developed, although it did not result in legislative action. Letters from men in the armed services and from the general public reveal the existence of a similar sentiment today. It may be strong enough to force Congress to accept the President's recommendations. If it is, and if the legislation is effective in preventing strikes affecting war production, the result will not be achieved without risk to the public welfare.

The application of the Selective Service Act to all the men between 18 and 65 years of age would vastly increase the power of the central government over individuals, and there is no absolute assurance that this power will not be abused.

Since the President's administration has been in office, proposals to meet all emergencies have had in

common the one pattern of extending the control of the Federal Government over the peoples' lives. The war has afforded a tremendous impetus to this movement toward centralization of authority.

If John L. Lewis is a sincere advocate of labor's cause, he will not further pursue a policy destined to bring upon organized labor the regimentation already imposed on management. If Congress is alert to its responsibilities, it will not broaden the scope of the Selective Service Act without introducing safeguards against its misuse.

#### *Reconstruction vs. State Socialism*

Clear evidence is accumulating that qualitative and quantitative superiority of United Nation's equipment over that of the enemy is becoming a decisive factor in this year's engagements. This superiority is an inevitable outgrowth of our preponderant economic power. It is primarily important in forecasting ultimate victory and is vital to the postwar welfare of this country. It now appears that the worst that can happen may be adverse war development that will prolong the struggle. It is obvious that the sooner the war can be brought to a conclusion, the less formidable will be the problems of reconstruction.

Already the United States and Great Britain have organized agencies for foreign relief and rehabilitation operations, and these are engaged in making preliminary surveys. The direct and indirect destruction caused by the war undoubtedly justifies misgivings regarding the arduous character of the tasks that will remain after victory. The war will exact a heavy price from the victors as well as from the vanquished. The inflations that followed the first World War in France and in Germany were more destructive than the wartime inflations. Even if inflation is held within reasonable limits in the United States during the present war, there is no certainty that it will not break out in more malignant form during the postwar period.

Inflations and their aftermaths of severe depressions are major perils to the democratic system of government. If hardships become great enough, the people will welcome any form of relief and may even rationalize the acceptance of a "temporary" dictatorship that might become prominent. We know that social problems will be acute in the countries ravaged by actual war destruction. It is more difficult to predict what effect the war will have in countries such as the United States where the effects of the war are more indirect.

The power that can be generated by a nation,

especially by its youth, after the nation has suffered years of hardship, is exemplified by the misguided force developed by the Nazi regime in Germany. If the same energy could have been applied to a reasonably regulated program for individual advancement, such as was achieved in the United States during the period when our great industries were being developed, Germany today would be a redoubtable trade rival but not an active belligerent.

After the war, the United States will be in a position to aid other nations by example as well as through largess. If we emphasize state socialism whereby the individual's incentive is impaired, we shall be doing ourselves, as well as others, a disservice. If individuals of exceptional ability are denied the fruits of their labor, the postwar reconstruction process will be immeasurably retarded.

## THE FUNDAMENTALS

### Industrial Production

The Institute's preliminary Index of Industrial Production for May has been revised from 183.0 to 182.0, indicating a slight decrease in manufacturing activity from the April level of 182.4. The preliminary index for June is 181.0, a decline of a full point from the revised May index. The index is shown in the chart on the opposite page.

The recent moderately downward trend in the Index of Industrial Production is partly attributable to work interruptions incident to the coal miners' dispute; but other factors were also involved. There are eighteen separate indexes for the major groups included in the Federal Reserve indexes of industrial production for which data are now published. (Indexes for many of the individual industries are not available for publication during the war.) During 1943, four of the groups, lumber products, stone, clay, and glass products, leather and products, and alcoholic beverages, have shown definitely declining trends. The groups classified as machinery, transportation equipment, and chemicals have exhibited decisive upward trends. The indexes for the remaining eleven groups have fluctuated within such narrow limits that no definite trends can be observed. We have considered the effects of the coal miners' strike on the fuel mining industries and the iron and steel industries as temporary. Recently, the tobacco products index has shown weakness that may indicate the imminence of a declining trend in the industry's activity.

The steel-ingot production rate was 97½ per cent of theoretical capacity last week, unchanged from the preceding week's rate. *The Iron Age* estimated that the coal strikes in recent months "appeared likely to cause the irretrievable loss this week of 30,000 tons of steel. Thus, the possibility of meeting War Production Board demand for more steel in third quarter has been impaired. Plans for the drive are being held in abeyance pending outcome of the strike. Fully as serious as the immediate losses is the cumulative effect of the mine disruptions upon next winter's stock piles, which should be growing higher at this time instead of dwindling to an all-time low point."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	95.0	22.0	75.5	28.5	99.0	97.5

(Latest 1943 weekly data; corresponding week earlier years)

Last week the electric-power industry established another new high production record when 4,098,401,000

kilowatt-hours were generated. The gain in production compared with output in the corresponding week of 1942 was 19.4 per cent. Increases were more evenly distributed among the geographic divisions than they were earlier this year.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.72	1.45	2.23	2.01	3.43	4.10

Lumber production increased last week and the seasonally adjusted index advanced from 108.9 to 113.2 per cent of the 1935-1939 monthly average. In spite of last week's advance, the index remained about eight per cent below the level existing in the corresponding week of 1942.

	1929	1932	1937	1938	1942	1943
New York Times Index	130.0	38.3	97.0	64.4	123.4	113.2

### The Harwood Index of Inflation

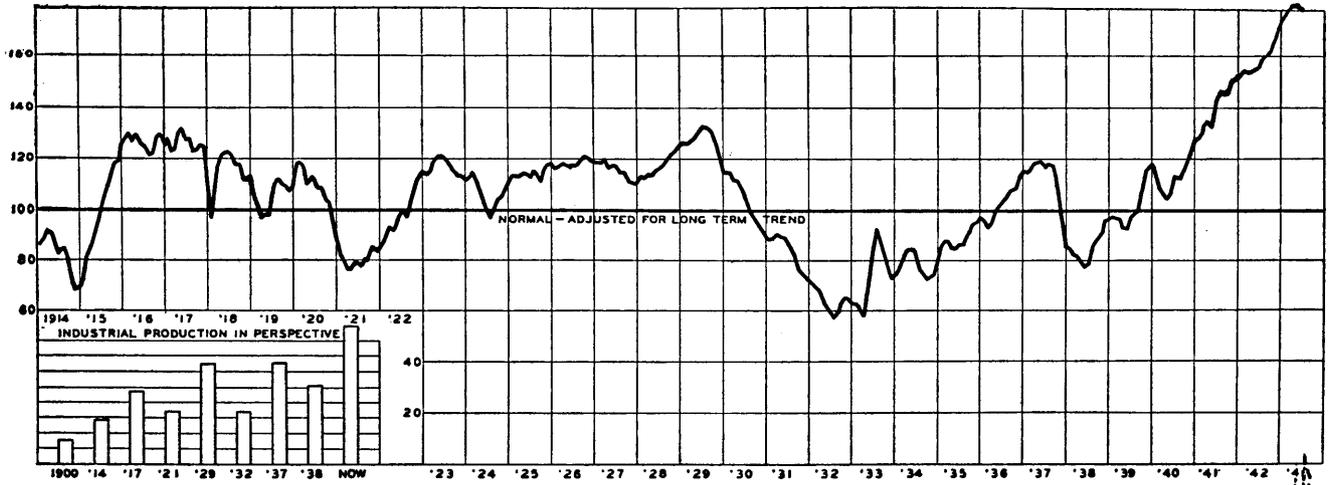
The revised Index of Inflation for May at 162.3 was more than seven points higher than the preliminary index of 155.0. The advance in the revised index from the preliminary estimate was attributable to a substantial increase in the commercial banks' holdings of Government securities during the latter part of May and to a substantial reduction in the Treasury's accounts with the Federal Reserve Banks and with other depositaries. The preliminary Index of Inflation for June (as of June 16) is 159.8, 2½ points lower than the May index.

The decline in the preliminary index for June was caused by a decrease in the Government bonds held by the commercial banks. Apparently the banks were distributing to customers Government securities that they had previously acquired for their own accounts. Wide week-to-week changes are recorded by the Index of Inflation as a result of Treasury operations on so great a scale as was exemplified by the Second War Loan Drive. During such a drive, the commercial banks and the Federal Reserve Banks acquire Treasury issues that are not intended for permanent investment in addition to the quotas for their permanent investment portfolios. When the banks dispose of these to individuals, the degree of inflation is somewhat reduced.

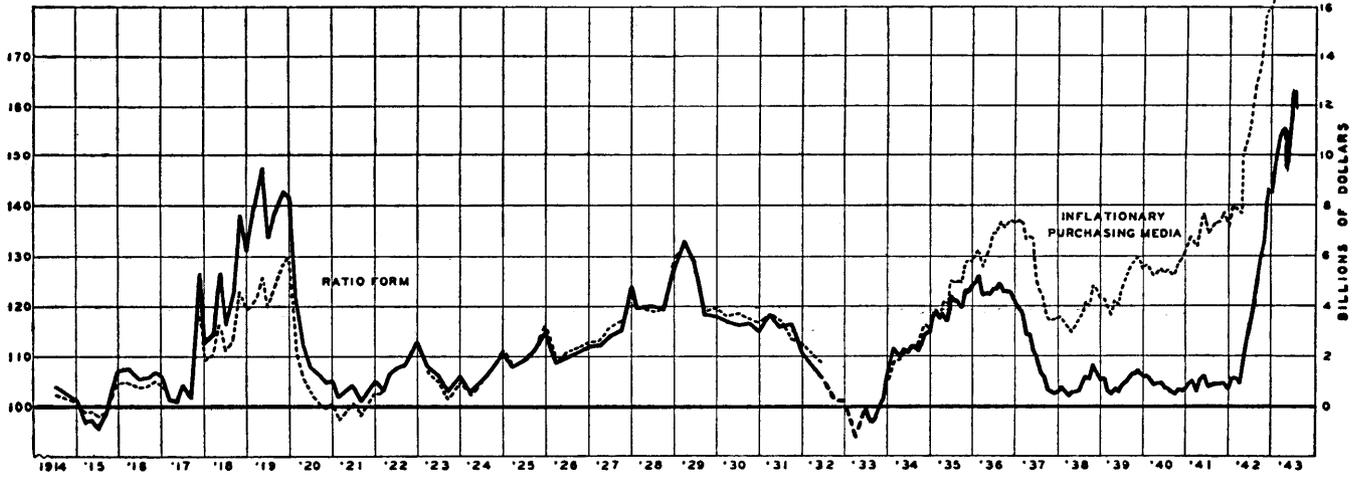
According to the latest Treasury reports available, June income tax receipts are substantially larger than they were a year ago, and these have enabled the Government to make heavy wartime disbursements without substantially drawing on its bank accounts during the first three weeks of this month. Sales of Savings Bonds are somewhat larger than they were a year ago but are falling below the one billion dollar per month rate. No doubt, Treasury officials will be especially concerned with observing the volume of Savings-Bond sales after the 20 per cent withholding tax on income is imposed in July.

The present level of the Harwood Index of Inflation in ratio form of about 160 is nearly 10 per cent higher than it was at the highest level reached during the first World War, and is 20 per cent higher than it was during the peak of the New Era boom in 1929. It therefore seems inevitable that as soon as the war is over, or even before that time, the excess purchasing media indicated as existing will affect prices more drastically than has been experienced at any time during the war period. No proposals made by the Treasury, or set forth by any other responsible Government spokesmen, have suggested the possibility that any portion of the volume of excess purchasing media now in the possession of the

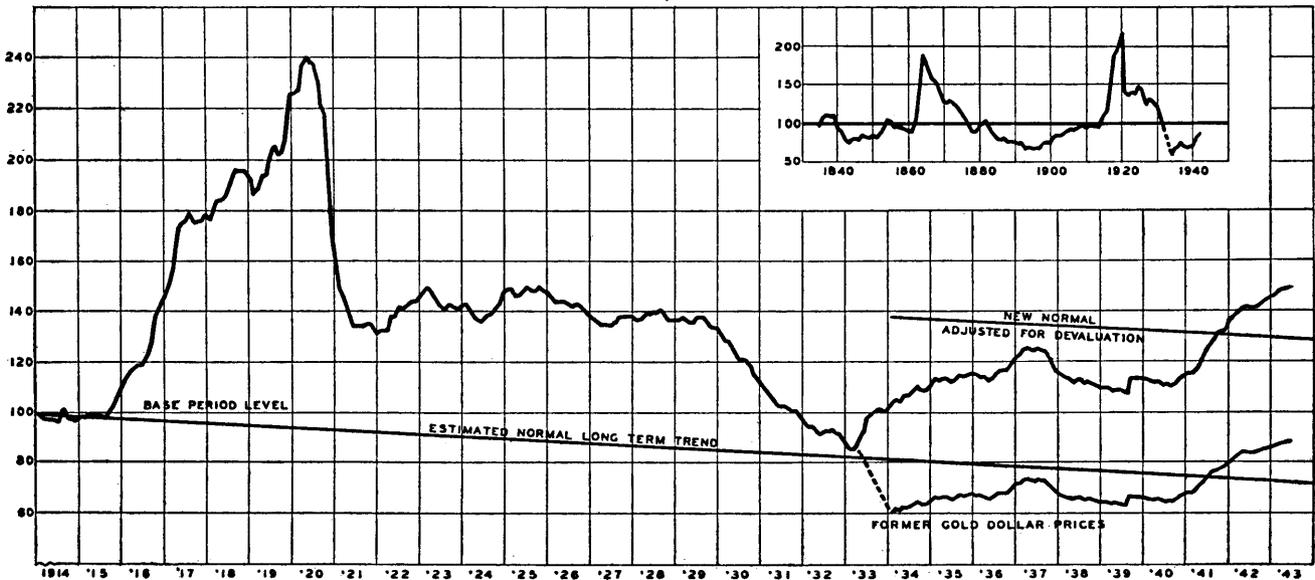
### INDUSTRIAL PRODUCTION



### HARWOOD INDEX OF INFLATION



### COMMODITY PRICES



public can actually be absorbed. It seems more probable that the "inflationary gap" will continue to widen. The Government admits the inadequacy of the withholding tax on income to cause a substantial reduction in monthly budgetary deficits, and Congress does not appear inclined to consider, at least at an early date, any additional fiscal legislation.

#### Other Demand Factors

A recent study made by statisticians of the Federal Reserve System indicates that the gains in the dollar volume of retail sales of nondurable consumer goods this year over the volume reported a year ago are entirely attributable to larger cash sales. Charge-account sales have remained at about the same level that existed during the first half of 1942, and installment sales have been greatly reduced. It is apparent that a considerable portion of the present active retail buying represents demands from war workers not accustomed to maintaining charge-account credit. This demand would undoubtedly express itself in the market for durable goods if supplies were available. It now exists as a latent force that should be an influential factor in sustaining industrial production after wartime restrictions on the manufacture of durable goods are removed.

#### Commodity Prices

There was only a fractional advance in the combined wholesale commodity price index compiled by the United States Bureau of Labor Statistics during the first three weeks of June. The index is shown in chart form on page 103, adjusted so that the 1913 monthly average=100. The preliminary index for June was 149.0, and the revised index for May was 148.7.

The fractional advance in the combined wholesale commodity price index was primarily attributable to increases in the cost of farm products and food. Prices of agricultural products have led the wartime advance in commodity prices as they did in the first World War. Inasmuch as food is the most important item in the family budget, the prices of farm products occupy a key position in the whole price structure. When necessary wage adjustments are made in recognition of higher living costs, the effect on the cost of other commodities cannot be avoided.

The accompanying table shows changes that have occurred in the major classifications of the wholesale commodity price indexes and in the combined index of all commodities. The June 1943 preliminary indexes are compared with the revised indexes of earlier significant periods.

The sensitive wholesale commodity price indexes remained about unchanged last week. Moody's Spot Commodity Price Index was 243.8 on June 17 and 243.9 on June 24. The Dow-Jones Index of Commodity

Futures closed at 91.90 on June 17 and at 91.72 on June 24.

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

	June 1929	June 1932	June 1942	May 1943	June* 1943
Farm Products	145.1	64.0	146.0	175.9	178.5
Foods	154.4	91.8	154.7	171.8	172.7
Hides and Leather	158.4	104.0	173.6	173.9	173.9
Textile Products	157.2	92.0	170.3	169.1	169.1
Fuel and Light	137.3	116.7	127.9	132.6	132.3
Metals and Products	111.5	87.9	114.4	114.4	114.4
Building Materials	167.9	124.8	194.2	194.5	194.7
Chemicals	125.8	100.7	121.2	124.9	124.9
House Furnishings	168.0	132.4	182.8	185.1	185.3
Miscellaneous	118.1	92.0	129.2	131.2	131.4
Raw Materials	140.4	77.3	145.1	165.6	166.9
Semimanufactures	123.4	76.9	123.9	124.0	124.0
Manufactured Products	136.9	100.9	142.1	145.4	145.1
All Commodities	136.4	91.5	141.3	148.7	149.0

\* Preliminary Estimate

#### FINANCE

#### New Capital Issues

Capital issues of corporate securities, less refundings, offered during May aggregated \$29,000,000, compared with a total of \$21,000,000 in the preceding month. Although the volume was somewhat larger than it was in April, it was less than one-third of the volume in May 1942. The figures failed to reveal any significant change from a condition of stagnation in the private capital market.

The new corporate debt incurred in May was divided about equally by borrowing concerns between the railroads and the industrial corporations. The public utility companies did not enter the market during the month. Most of the new issues were in the form of long-term bonds and notes, but \$3,500,000 represented stock issues.

New corporate financing in May and in the first five months of each year during the past eighteen years is shown in the accompanying summary.

#### NEW CORPORATE FINANCING IN THE UNITED STATES

Year (In Millions of Dollars)	First Five Months		Year (In Millions of Dollars)	First Five Months	
	May	Months		May	Months
1926	442	2,098	1935	45	87
1927	425	2,206	1936	33	306
1928	499	2,104	1937	83	553
1929	505	2,373	1938	38	160
1930	862	3,080	1939	21	186
1931	169	1,176	1940	39	254
1932	7	156	1941	64	289
1933	4	48	1942	104	407
1934	29	90	1943	29	121

Source: Commercial and Financial Chronicle.

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

	1942				1943								
	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.	Apr.	May	June*
Index of Industrial Production	156.0	159.3	161.8	167.0	170.4	173.7	176.2	178.5	180.6	181.2	182.4	182.0	181.0
Index of Inflation (Ratio Form)	119.7	125.1	130.3	133.6	140.7	143.5	142.7	154.2	156.1	154.7	147.2	162.3	159.8
Commodity Price Index	141.3	141.4	142.1	142.3	142.8	143.4	144.4	145.7	146.7	147.9	148.1	148.7	149.0
Commodity Price Index	83.6	83.7	84.1	84.2	84.5	84.9	85.4	86.2	86.8	87.5	87.6	88.0	88.2

(In terms of former gold dollar)

\*Preliminary Estimate.