AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Fourth-Term Campaign

It is obvious to all persons capable of reading the news intelligently that the fourth-term issue has been brought out into the open. A long and trying political campaign has been initiated while we are in the midst of a major conflict. Even if it does not have an important effect on the war effort, it is certain that its influence will be adverse.

If President Roosevelt is to win a fourth term, he must overcome two centers of resistance. The first is the dissident elements in the Democratic Party; an organization that he has striven to reshape in accordance with a philosophy essentially alien to its traditions. The second resides in the continued existence of the opposition party that showed signs of renewed vigor in the 1942 election. Both of these are of questionable strength when arrayed against the influence generated by well-nigh unlimited spending power.

If the war in Europe collapses during the coming winter, domestic political developments may well rival the remaining war news in public interest. It is therefore not too early to examine any evidence that has a bearing on political trends whenever it appears. For example, the gubernatorial primary contest in Mississippi (a State in which the primary contest is conclusive as to the election) has a special significance. The issues in this instance were clear-cut. Two candidates were avowedly advocates of the fourth term, and two others were frankly anti-New Deal. The fact that the latter won decisively proclaims the existence of dissatisfaction with Administration policies in the stronghold of the presidential incumbent's party.

Opposition to the President in the South may in part be attributable to the blunderings of officials administering wartime economic controls, but this is probably not the major cause of discontent. The major charge is against the Federal Government's encroachment of States' rights that has proceeded with increasingly growing force under the Roosevelt Administration. It is not surprising that the section of the country that once chose civil war in preference to interference from Washington finds the present trend irksome to the point of outweighing some of the advantages of political preferment.

The effect of a political revolt in the Southern States against a fourth term may be easily overemphasized. The adherence of these States to the Democratic Party is so strong that their opposition to Mr. Roosevelt might not survive if he is "drafted" as the Party's candidate. On the other hand, if opposition to the New Deal of equal strength is manifested in other sections of the country, the possibility of a change in the Administration next year will be strengthened.

New Efficiency in Railroad Operations

The men responsible for the management of the country's railroads will have a responsibility as well as an opportunity for achievement in the post-war period. Before the second World War, the officers of many of the roads felt that their companies were in a state of decline, from which there could be no revival. The war has provided them with a reprieve that can be carried into a pardon if they are alert to their opportunity.

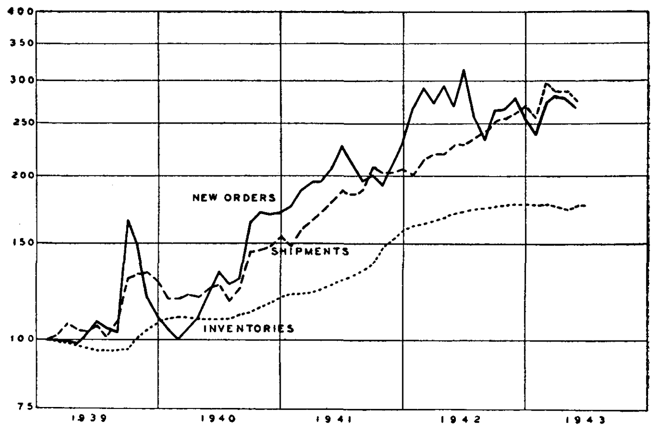
As soon as the war began in Europe in 1939, there was an increase in the movement of heavy traffic on the railroads. This was greatly augmented when we became the "arsenal of Democracy" in 1941, and an even greater flow of traffic followed our entrance into the conflict. Enemy submarine activities and rubber and gasoline shortages gradually brought about the eclipse of competing forms of transportation.

The resulting recovery in earnings have enabled the roads to make substantial progress in repairing the financial demoralization of the depression years, and the stronger roads are regaining the confidence of investors that was forfeited after 1929. Fully as important a development would be the re-energizing of the railroads' managements appropriate to a live and growing industry.

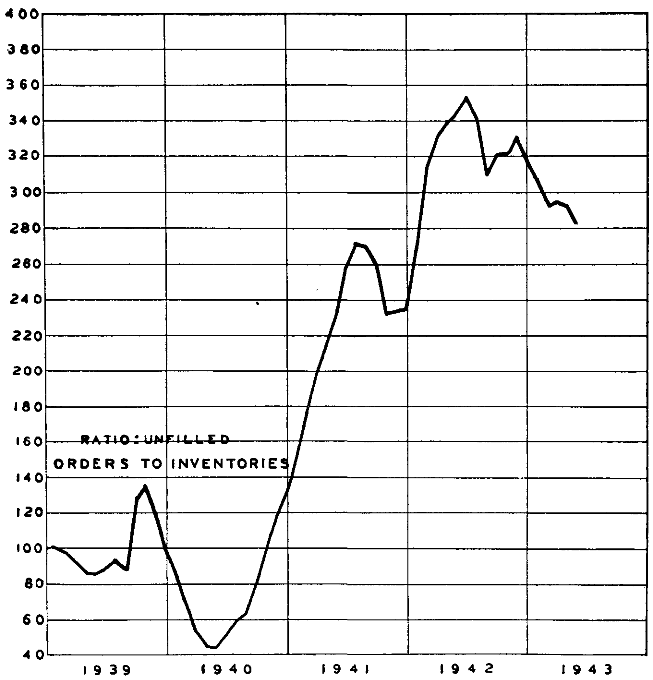
The capacity shown by the railroads in meeting the burden of wartime freight traffic without the assistance of much new equipment has surprised the members of the Office of War Transportation. Railroad operators have established a record of wartime achievements that has favorable implications for the postwar period.

Of course, the railroads will lose much of their heavy traffic originating from Government orders after the war, and there will be a revival of competition. Nevertheless, there should remain a volume of freight traffic sufficiently large to enable the roads to return profits on operations if conducted with the new efficiency acquired during the present period.

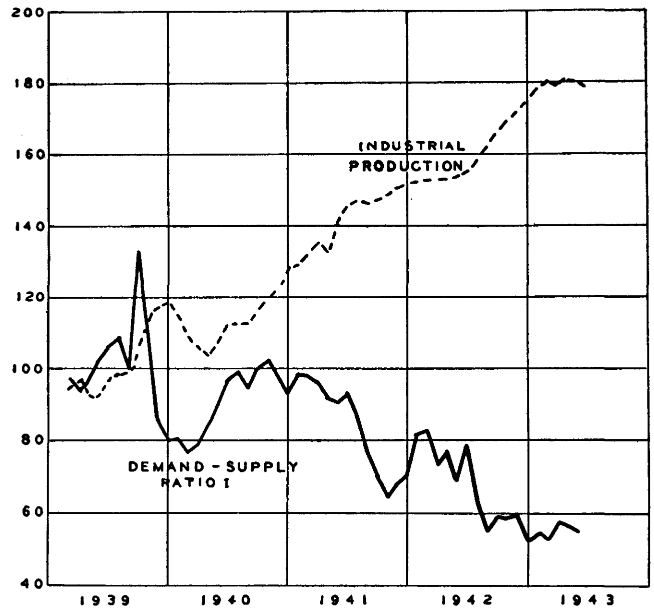
INDEXES OF MANUFACTURERS' NEW ORDERS, SHIPMENTS, AND INVENTORIES
(1939=100)



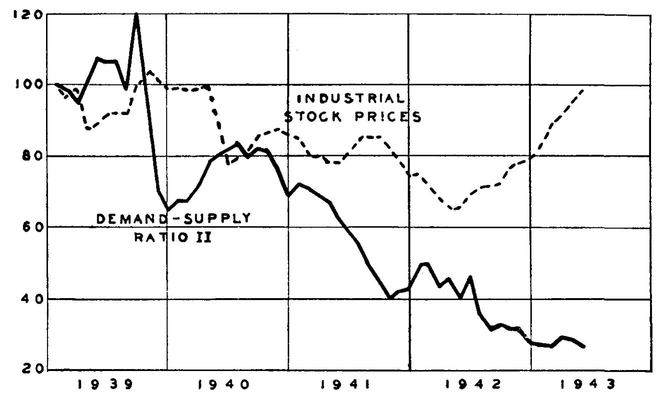
RATIO OF UNFILLED ORDERS TO INVENTORIES



DEMAND-SUPPLY RATIO I
VS. INDUSTRIAL PRODUCTION



DEMAND-SUPPLY RATIO II
VS. INDUSTRIAL STOCK PRICES



Demand-Supply Ratios

The indexes of manufacturers' new orders, shipments, and inventories, compiled by the United States Department of Commerce, were only recently published for May 1943. Greater-than-normal delay in obtaining information involving the collection of comprehensive statistics has been experienced since the United States became a belligerent. However, the United States Government, through its statistical organizations, still makes available to the public more business information than can be obtained for any other important nation. The chart in the upper left-hand corner of this page shows the basic indexes from which our demand-supply relationship charts are derived.

Since the chart showing the indexes of manufacturers' new orders, shipments, and inventories was published early this year, there has been a basic change in the new orders and shipments series. During 1941 and 1942, the new orders index was generally higher than was the shipments index in relation to the base period 1939. On the other hand, the shipments index during the first five months of 1943 has been consistently higher than the new orders index. There has been no significant change in the inventories index since the latter part of 1942.

The ratio of unfilled orders to inventories, shown in the next chart in the same column, was computed by dividing the backlog of orders (obtained by calculating the excess of the new orders index over the shipments index for the period shown on the chart) by the index of inventories. The ratio follows an upward trend when the volume of incoming orders is larger than the volume of shipments, a situation that existed during most of the months from the middle of 1940 to the middle of 1942. The inventory factor entering into the calculation of the ratio did not appreciably affect the month-to-month changes during the period when the volume of incoming orders substantially exceeded the shipments. Subsequently, when the volume of new orders exhibited a less favorable trend in comparison with the volume of shipments, even the moderate increase in inventories tended to depress the ratio of unfilled orders to inventories. During the first months of 1943, when shipments have exceeded new orders, the trend of this ratio has been downward.

The third chart at the top of page 126 shows the Institute's Demand-Supply Ratio I (new orders divided by shipments times inventories) with the Institute's index of industrial production, which is adjusted for long-term trend. This ratio has fluctuated within a relatively narrow range during the months in 1943 for which data are available. The course of the two indexes, manufacturers' new orders and shipments was generally parallel. This condition is of course a reflection of the achievement of equilibrium in the war-production program. The Institute's index of industrial production during 1943 has leveled off after an extensive rise that began in the spring of 1940. It is probable that the equilibrium reflected in the trends of these indexes will be continued during the remainder of the war in Europe.

The fourth chart on page 126 presents the Institute's Demand-Supply Ratio II with the index of industrial stock prices. This ratio includes industrial production as well as shipments and inventories in the supply factor. During the first five months of 1943, this ratio has followed a similar trend to that of Demand-Supply Ratio I, a condition that is inevitable when there is no significant change in the index of industrial production. During this period, when Demand-Supply Ratio II remained about unchanged, industrial stock prices advanced consistently. The movement of the stock market was evidently actuated by considerations not immediately connected with the demand-supply situation. It seems probable that strength in the stock market during a period when the demand-supply relationship afforded no especial incentive to speculative interest was caused by the force of the wartime inflation. Although much of the newly created inflationary purchasing media has been hoarded in the form of currency or checking-account deposits, a portion of the total has found its way into the stock market.

BUSINESS

The Trend of Industrial Disputes

Comprehensive data regarding industrial disputes are prepared by the United States Bureau of Labor Statistics, but several months are required for the correction and analysis of the reports. Data for the first five months of this year are now available. The following table shows the number of workers involved in industrial disputes in each month of 1939, 1940, 1941, 1942, and the first five months of 1943.

WORKERS INVOLVED IN INDUSTRIAL DISPUTES
(*Thousands of Workers*)

	1939	*1940*	*1941*	*1942*	*1943*
January	72	40	110	49	100
February	88	37	128	80	48
March	65	43	179	80	75
April	426	52	567	85	205
May	457	77	420	79	625
June	127	56	227	126	
July	212	83	226	114	
August	119	90	305	108	
September	104	108	358	101	
October	140	108	348	67	
November	130	102	339	55	
December	37	62	59	62	
Average	165	72	272	84	

The table shows that during 1941, when the country was developing its national defense program, interruptions to production because of strikes were especially serious. The monthly average of 272,000 workers involved in industrial disputes was higher than it had been for any other year since 1919. Only in 1937, the year that marked the crest of the disturbances attributable to the organizing campaign sponsored by the New Deal's labor legislation, did the monthly average of 265,000 workers involved in strikes subsequently approach the 1941 monthly average. The situation was changed after the United States entered the war actively. During the first sixteen months after the Pearl Harbor onslaught, the number of workers involved in industrial disputes decreased to less than one-third of the monthly average that prevailed throughout most of 1941.

Although the informal agreement between the Government and the two national labor organizations to prevent strikes in plants engaged in war work did not entirely eliminate interruptions because of disputes, the record shows that a relatively small number of workers were involved in strikes during this period. It was not until disturbances in the coal fields under Mr. Lewis's leadership occurred this spring that the general truce in labor relations was violated.

The total of 625,000 workers reported by the United States Bureau of Labor Statistics as involved in industrial disputes during May 1943 was not a relatively large number compared with a total industrial labor force of more than 20,000,000 men. Nevertheless, the greater part of these strikers were coal miners, and the consequent interruption to the flow of fuel to industry caused losses in production out of proportion to the segment of the Nation's labor force that was temporarily idle.

Unofficial reports indicate that labor relations have deteriorated somewhat during the past few months. There has probably grown up a feeling among the ranks of organized labor that allied successes in the field have relieved them to some extent of the need for special exertion and special concessions in regard to labor disputes because of the war emergency. There is also probably a feeling among the officials of national labor organizations that the influence of their leadership will be weakened if they remain inactive for an extended period of time. It would not be surprising if the strike record for the remainder of 1943 continues to compare unfavorably on a month-to-month basis with the record for 1942.

It is also interesting to speculate as to probable labor relations after the war in Europe has ended. Strike statistics covering the first World War period are not strictly comparable to those now published by the Bureau of Labor Statistics, but those available indicate that losses because of strikes were more serious after the war had ended than they were at any other time. The following brief summary shows the number 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		

The number of workers involved in strikes during the first World War period should be judged in relation to the total labor force at that time, which was smaller than it is at present. Whether similar circumstances develop after the present conflict will probably depend on the state of business activity during the postwar period. Strikes can be effectively undertaken only when there is active demand for the products of industry.

THE FUNDAMENTALS

Supply

The steel-ingot production rate advanced from 98 to 98½ per cent of theoretical capacity last week. *The Iron Age* stated: "The latest programs, plus the tendency of war goods makers to place orders for steel as far ahead as possible, have loaded mill books far into the future. Aside from orders that might be placed where cancellations occur, there are now no openings on the books of some mills for the remainder of this year and schedules for the first quarter of next year are filling at a fast rate. Meanwhile, the War Production Board drive to put steel to use from inventories met with results above expectations. Recovery of about 820,000 tons of steel through cancellation of allotments in the third and fourth quarters was reported on Tuesday at Washington. This total exceeded official hopes expressed last week that the drive would net around 650,000 tons. Actually recovery from inventories may go higher. John Q. Public for some time has been peeved at having his patriotism questioned every time he seeks a shoe, a stew pot or a bunch of safety pins, and Washington finally is waking up to this fact. It is predicted in some quarters that improved inventories of civilian goods by the end of this year are a distinct possibility and that by mid-1944 many essential demands probably will have been filled."

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Per Cent of Capacity	94.0	14.0	84.0	40.0	97.5	98.5

(Latest 1943 weekly data; corresponding week earlier years)

The electric-power industry set a new high record for production last week, when 4,266,705,000 kilowatt-hours were generated, compared with production of 4,196,357,000 in the preceding week. The gain in output, compared with production in the corresponding week of 1942, was 15.8 per cent.

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
Billion Kilowatt-Hours	1.73	1.42	2.30	2.13	3.65	4.27

Last week, lumber production decreased slightly, when the seasonal trend was upward, and consequently the adjusted index declined from 113.3 in the preceding week to 112.0. On the other hand, the volume of new orders increased last week, compared with the total in the preceding week.

	1929	*1932*	*1937*	*1938*	*1942*	*1943*
New York Times Index	130.7	35.8	92.4	69.3	118.1	112.0

Demand

The Federal Reserve index of department-store sales last week was 11 per cent higher than the index reported in the corresponding week of 1942, compared with a gain of 19 per cent in the preceding week. Government spending during July was about $1,000,000,000 smaller than the June total. This was caused primarily by a decrease in expenditures of the Navy Department. Apparently, large shipbuilding contracts were completed and payments made in June, but these were not duplicated in July. The decrease in Government expenditures probably will not have the adverse effect on retail sales commensurate with its substantial proportions. Consumer demand is made effective primarily from pay rolls, and these were sustained during July at a high level.

Prices

The sensitive wholesale commodity price indexes remained substantially unchanged last week. Moody's Spot Commodity Price Index was 244.0 on July 29 and 244.2 on August 5. The Dow-Jones Index of Commodity Futures closed at 92.63 on July 29 and at 92.61 on August 5.

The two sensitive price indexes that we quote each week in the Research Report bulletin reflect the statistical position of the most important staple raw materials. Moody's Spot Commodity Price Index is one of the best and most widely used sensitive wholesale commodity 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 fifteen 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 eleven 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. At the present time there is no free market in some of the commodities so that fluctuations in the averages are determined by fewer commodity items.

SECURITIES

Bonds

Bond prices remained about unchanged last week. The Dow-Jones average of forty bonds was 96.42 on July 29 and 96.19 on August 5.

Stocks

The stock market rallied last week after the preceding week's decline, but the improvement in prices was not extensive, and there was a gradual decrease in the volume of transactions.

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