

# 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

#### *Summer Let-Down*

Records of industrial operations that are gradually becoming available covering the summer months leave no doubt that there has been a real slump in the production program. In many establishments, this has manifested itself merely as a slowing up or a cessation in an expanding trend. In other instances, there has been a falling off in actual production, so that the flow of materials for the armed services or for civilian consumption is decreased. This let-down has been generally attributed to a sentiment existing both in the minds of management and of factory operators that the war is virtually won. Therefore, no unusual efforts are necessary any more. This attitude has been deplored in public utterances by Army officers and other Government spokesmen. They have argued that a slowing up in the flow of war goods to the fighting fronts at the present time will tend to prolong the war and will increase its ultimate cost in lives and in wealth.

The recent rapid increase in the rate of labor turnover and absenteeism in defense plants leaves no doubt that a major cause of the slump is attributable to an increase in indifference among the war workers. The Nation began its war-production program more than two years ago, and many industrial workers who have ample cash savings as a result of their efforts feel entitled to vacations that their economic positions enable them to take.

There are no doubt other factors that can be charged with their share of responsibility for the production let-down. The Nation's effective labor force was mobilized probably as extensively as could be practically managed without legal compulsion during the first year and a half of our active participation in the conflict. Thereafter, there were no replacements available for industrial personnel when men were drafted for the armed services. The point was reached where further expansion of the military could be carried out only at the expense of the effectiveness of the producing sector of the country. There are other influences that must be considered, such as the deterioration in producers equipment that has been operating at practical maximum capacity for a protracted period, frequently without the benefit of adequate repairs. Nevertheless, the number and morale of the Nation's labor force will be viewed as the points of attack by the Government in its effort to bring production up to schedule again.

Reports from Washington indicate that various forms of labor draft are being considered for possible introduction to Congressional consideration next month. It is doubtful if a universal service law could be passed over the protest of the national labor organizations, especially at a time when our forces are invading the enemies' territories instead of our being faced with the threat of invasion by our enemies. If the problem can be met without imposing further drastic compulsions on the civilian population, the best interests of the people will be served. The more intricate and far-reaching are the Government controls established in war time, the more difficult will be the return to reasonable economic conditions after the war is over.

It is doubtful if a program of compulsion would actually effect a worthwhile improvement in the production situation. The potential labor force yet untapped is probably so small that, by the time the administrative difficulties involved in induction and allocation were overcome, the contribution to the total production personnel would not be appreciable.

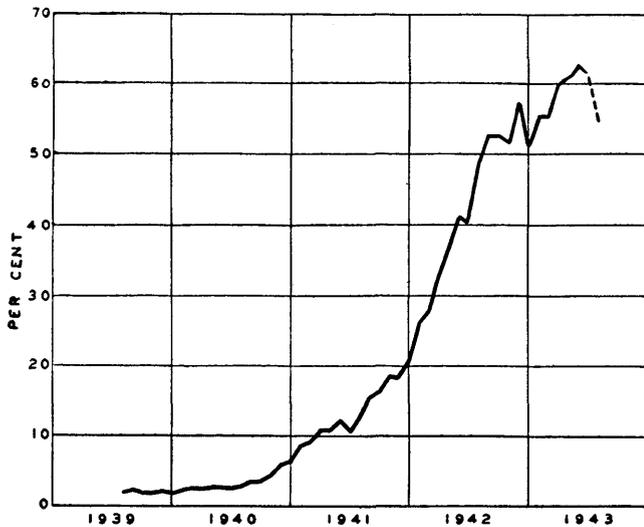
Officials connected with the war effort who have advocated civilian draft maintain that it is necessary in order to complete the shift in employment from civilian activities to essential war activities. However, this process has been going on ever since the national defense program was started. The higher wage levels paid in defense plants have already caused the transfer of virtually all skilled help from the service of civilian supply to war work. In fact, this shift has been so extensive that essential civilian equipment is beginning to deteriorate. If a transfer of the remaining personnel available to serve civilian needs were carried out, it might result in more harm to the Nation's morale than could possibly be outweighed by the authority to transfer unwilling civilians from one occupation to another or from one place to another.

### *Proportion of the National Economy Devoted to War Activity*

The dollar is the only common denominator for arriving at an appraisal of the progress of the war effort in producing the many diversified materials needed for our fighting forces. As a rough measure of the extent of our economic involvement in the war, we have therefore computed expenditures for war activities as a per cent of the Nation's total income payments in a monthly series. The data are plotted on the accompany-

ing chart beginning in July 1939 shortly before the outbreak of war in Europe through July 1943. A dotted line is shown to indicate the position of the series in July, because it was necessary to estimate the income data for that month, although the figures for the actual expenditures of the Government for war activities are available.

PER CENT OF TOTAL INCOME  
FOR WAR ACTIVITIES



The chart shows that, before the war started in Europe, the proportion of the Nation's total income payments that were devoted to national defense was about two per cent. This was only slightly increased during the first six months of 1940, but after France was conquered, the Nation undertook a rearmament program, and the proportion of our production for national defense began to increase more rapidly. By the end of 1940, it was about six per cent of the aggregate income. The rate of increase was accelerated throughout most of 1941 and was about 18½ per cent in November, the last month before we became an active participant in the war. Since then, the transformation of the Nation's economy to a war basis proceeded rapidly until late in 1942, when irregularity developed. Subsequently, a new high was made in the proportion of total income devoted to war activities, but there was a moderate decrease in June. The substantial decrease in July was attributable to a reduction in expenditures by the Navy Department. In June, the Navy Department spent approximately \$2,980,000,000, whereas in July the outlays of this Department were reduced to about \$1,900,000,000. Of course, there are no detailed figures made public by the Navy Department that would make possible an analysis of its expenditures. It seems probable that fewer contracts for warships were payable during July than in June. The War Department succeeded in spending about \$400,000,000 more in July than in June.

The following statistical summary shows the expenditures for war activities for each month in 1942 and for the first seven months in 1943, together with the income payments for the corresponding period.

Expenditures for  
War Activities  
(In Billions of Dollars)

Income  
Payments

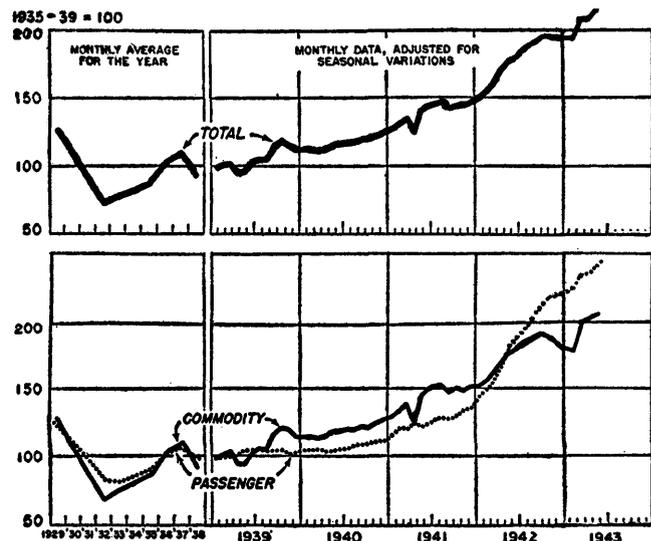
	Expenditures for War Activities (In Billions of Dollars)	Income Payments
<i>1942</i>		
January	2,101	8,411
February	2,201	8,026
March	2,797	8,714
April	3,231	8,811
May	3,553	8,670
June	3,823	9,647
July	4,494	9,508
August	4,882	9,357
September	5,384	10,243
October	5,481	10,603
November	6,042	10,430
December	5,825	11,524
<i>1943</i>		
January	5,947	10,748
February	5,770	10,443
March	6,744	11,222
April	6,974	11,215
May	7,091	11,138
June	7,469	12,162
July	6,432	11,750 (est.)

## BUSINESS

### Transportation Indexes

The United States Bureau of Foreign and Domestic Commerce has recently published revised figures for its statistical series that measure the volume of total commercial transportation traffic in the United States. The following chart shows the trend of the combined index and the two separate indexes for commodity and passenger service during the period for which data are available.

INDEXES OF VOLUME OF TOTAL, COMMODITY,  
AND PASSENGER TRANSPORTATION



There is no indication discernible in the chart of a decisive change in the upward trend of either commodity traffic or passenger transportation. Nevertheless, the rate of gain that occurred during 1941 and the first three quarters of 1942 has not quite been equaled during the later months shown; but the passenger transportation index has shown consistent gains in 1943, and a new high level has been recorded by the index of commodity traffic.

The figures on which the index is based represent transportation between points in continental United States. The ton-mile unit was used in measuring commodity traffic of the railroads, the motor-truck transportation system (local motor-truck traffic was excluded), and coastal and inland waterways shipping. The index of total transportation includes both commodity and passenger transportation, and, in addition to the combined index, there are separate indexes for commodity and passenger traffic.

The following brief summary shows the indexes for the five major transportation agencies for August 1939, just before the war started in Europe, and for April 1943 (the latest month for which data are available) with the percentage changes for the period.

Type of Transportation	Indexes 1935-39 = 100		Per Cent Increase
	August 1939	April 1943	
Air	141	421	199
Railroads	101	243	141
Intercity Motor Truck	117	234	100
Oil and Gas Pipelines	102	161	58
Water-borne Domestic Commerce	116	71	39*

\*Decrease

The freight ton-miles carried by air include air mail. Although the gain in commodities carried by airplanes during the period shown is striking, the actual volume, compared with the volume carried by other transportation facilities, is small. The increase of 141 per cent in the traffic carried by the railroads represents a tremendous gain in actual tonnage carried. The total tonnage carried by the railroads is normally about a third again as large as the total domestic commerce carried by the coastwise, Great Lakes, and inland rivers and canals water-borne shipping. Now that water-borne domestic commerce has decreased drastically because of the war, the proportion of tonnage carried by the railroads has of course increased. The 100 per cent gain in intercity motor traffic tonnage is surprisingly large in view of the restrictions imposed by the stringent supply situation for rubber and gasoline. On the other hand, a greater increase might have been expected in traffic through oil and gas pipelines.

### Newspaper Advertising

Newspaper advertising linage reported for June 1943 was 16.7 per cent greater than that reported for the corresponding month of 1942. This was an improvement on the gain of 13.1 per cent recorded during May. Since the Nation has been at war, there has been a pronounced change in the character of newspaper advertising, although retail-store advertising continues to be the most important customer for space in the dailies, classified and general types of advertisements occupy an increasing proportion of total linage.

Newspaper advertising linage in the dailies of fifty-two cities during June 1942 and 1943 and the percentage increase of the latter in comparison with the record for the earlier period are shown in the accompanying table

Newspaper Advertising Linage Classified	June 1942	June 1943	Per Cent Increase From June 1942
	(Millions of Dollars)		
Display	20.6	29.3	42.2
Automotive	2.5	3.1	24.0
Financial	1.4	1.3	7.1*
General	14.8	21.1	42.6
Retail	58.3	59.2	1.5
Total	97.7	114.0	16.7

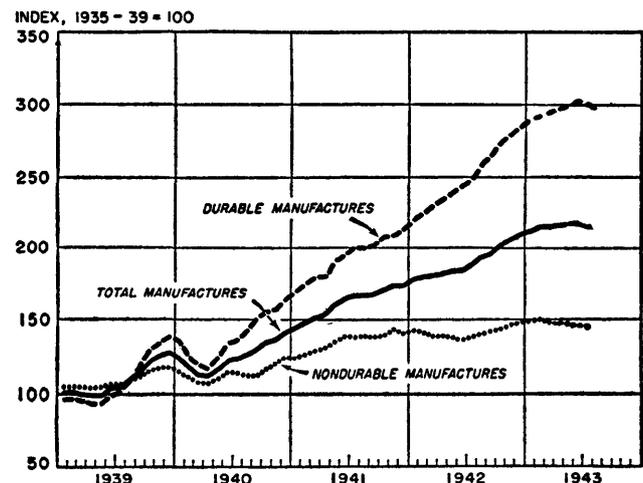
\*Decrease

During the first months after our active entrance into the war, there was a sizable net decrease in the advertising business enjoyed by newspapers and periodicals. Radio broadcasting was the only important advertising medium that did not suffer serious ill effects from the war. However, the downward trend of newspaper and magazine advertising was reversed about a year ago, and, in the past twelve months, there has been a gradual increase in the volume of printed advertising. The most important single factor causing the increase is the expansion in the help-wanted columns of the newspapers. There is no indication that this trend will change until the war is over.

### Trends in Production

The wartime expansion in manufacturing activity has been primarily concentrated in durable manufactures. The increase in the volume of nondurable manufactures has been relatively small. The trends of the durable goods index, the nondurable goods index, and the combined index of manufacturing activity, prepared by the Federal Reserve System, are shown in the following chart.

INDEXES OF DURABLE AND NONDURABLE MANUFACTURES



Even if the wartime high level in manufacturing operations was reached last spring, the increase of 200 per cent from the prewar level for the durable manufactures may be considered a remarkable achievement, inasmuch as industrial production during the base period 1935-1939 included a full business cycle and therefore represented an approximation of normal economic conditions. The gain of 50 per cent in the nondurable manufactures is the net result of the substantial expansion in the output of such industries as cotton, woolen, and rayon goods and manufactured food products that was partly offset by a much lower rate of gain in such industries as the rubber goods, alcoholic beverages, and printing and publishing.

The largest gains in the durable manufactures group of industries was recorded by the transportation equipment and machinery groups. The transportation equipment group includes the aircraft and shipbuilding industries. The nonferrous metals group and the lumber and the stone, clay, and glass products that are all included in durable manufactures reported gains that were relatively moderate.

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate was unchanged last week at 98½ per cent of theoretical capacity. This rate was one point higher than the rate that prevailed during the corresponding week of 1942, and there was actually a larger steel-tonnage production than this small gain indicated because of a moderate expansion in producing facilities during the past twelve months. Last week, when results of the War Production Board's drive to recover steel from inventories was announced as being unexpectedly successful, the prospects appeared to be improved for the release of steel for civilian use. However, after reviewing the manpower situation in the steel industry, there appear to be less grounds for optimism. *The Iron Age* last week made the following statement in this connection: "Steel executives are perplexed at how they are going to increase production as manpower disappears. The newly installed 48-hour week is by no means an answer. Steel men say there isn't a chance in the world of steel supplies loosening up for months to come, and they see no hopes for the civilian economy getting more steel other than for repair parts. Except for 'stragglings tonnage,' the inventory portion of the steel campaign has ended with cancellation of allotments for the third and fourth quarters of 1943 amounting to 868,837 tons."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	93.0	14.5	83.0	40.0	97.5	98.5

(Latest 1943 weekly data; corresponding week earlier years)

Electric-power production last week exceeded that in the corresponding week of 1941 by 16.6 per cent, a more substantial gain than was recorded in the preceding week, when the comparison indicated an increase of 15.8 per cent. Gains were distributed about equally throughout the country, except in the New England States, where the gain was less than 10 per cent. The statistical comparison shows that nearly two and a half times as much electric power is currently being generated than was being produced during the corresponding period in 1929.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.75	1.43	2.30	2.14	3.64	4.24

Lumber production failed to increase last week, when a seasonal upturn was expected. Consequently, the adjusted index declined from 112.0 to 111.3 per cent of the 1935-1939 monthly average.

	1929	1932	1937	1938	1942	1943
New York Times Index	128.9	35.4	84.8	73.5	115.7	111.3

### Demand

The Federal Reserve index of department-store sales last week was six per cent higher than the index reported in the corresponding week of 1942, compared with a gain of 11 per cent in the preceding week. The index for the four weeks ended July 31, 1943 was 12 per cent higher than the average for the corresponding period last year. The gain was somewhat smaller than the increase of more than 15 per cent for the first half of the year. The slightly less favorable showing has been attributed to the effect of the withholding tax.

### Prices

The price trend of the futures market was moderately reactionary last week, but average spot wholesale commodity prices recorded a slight gain. Moody's Spot Commodity Index was 244.2 on August 5 and 245.0

on August 12. The Dow-Jones Index of Commodity Futures closed at 92.61 on August 5 and at 92.14 on August 12.

## FINANCE

### The Federal Debt and Its Service Charge

The Federal debt has increased during the past ten years, so that at the end of the last fiscal year (June 30, 1943), it was more than six times as great as it was June 30, 1933. In view of the rapidity with which the debt is increasing at the present time, comparisons with the debt that existed ten years ago may seem futile. However, the average rate of interest is of great importance, because it determines the charge that the debt will exact from taxpayers in the years to come.

One obvious effect of an increasing public debt is the growing interest charges that the Government must pay annually. Through its easy-money policy, the Government has been able to prevent as great a proportionate rise in the interest debt as has occurred in the principal. The following summary indicates the extent to which the interest-bearing public debt and its service charges have increased since 1933.

Fiscal Year Ending June 30	Interest-Bearing Debt (Millions of Dollars)	Per Cent of 1933	Interest on Debt (Millions of Dollars)	Per Cent of 1933
1933	22,158	100.0	689	100.0
1934	26,480	119.5	757	109.9
1935	27,645	124.8	821	119.2
1936	32,989	148.9	749	108.7
1937	35,800	161.6	866	125.7
1938	36,576	165.1	926	134.4
1939	39,886	180.0	941	136.6
1940	42,376	191.2	1,041	151.1
1941	48,387	218.4	1,111	161.2
1942	71,968	324.8	1,260	182.9
1943	135,380	611.0	1,808	262.4

Although the debt increased 511 per cent during the period shown, interest charges increased only 162 per cent. Had charges increased proportionately to the increase in the debt since 1933, interest requirements for the fiscal year 1943 would have been \$4,210,000,000, instead of \$1,808,000,000. However, as interest rates on Treasury issues become stabilized, the debt will increase in proportion to the increase in the Federal debt. The long period of downward trend in interest rates appears to have culminated, and, if this proves to be true, the interest charges on the public debt will become a serious budgetary item by the time the expansion in the public debt occasioned by the war has ended.

## SECURITIES

### Bonds

The character of the bond market has not changed appreciably since the decline during the latter part of July was arrested early this month. The Dow-Jones average of forty bonds was 96.19 on August 5 and 96.27 on August 12.

### Stocks

There was very little interest in the stock market last week. Apparently the speculative urge was dampened during the peace scare last month, and subsequently the volume of transactions on the New York Stock Exchange has been relatively small. However, there was no evidence of a resumption of the selling movement, and, in fact, prices improved slightly last week. All three groups, the industrials, the railroads, and the utilities, participated in the firmer tone that was evident.