

AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

W E E K L Y
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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

Political Trends in Organized Labor

Developments in the field of labor politics last week indicated that John L. Lewis will shepherd his powerful United Mine Workers union back into the American Federation of Labor's fold and find a welcome there. If this reunion is effected, it may foreshadow the absorption by the older national union of other elements that seceded from the AF of L to the Congress of Industrial Organization or that were created as new labor entities after the schism in September 1936. Sweeping changes in the organized labor field seem imminent, and these are being shaped by devious political currents.

Essentially, these changes appear to be preparations for the future adjustment of labor organizations to postwar conditions. The fate of the national labor unions after the war will depend primarily on economic conditions in the country. The CIO may disappear as did the IWW after the first World War, although the situation then does not afford a close parallel with that of today, because organized labor now plays a vastly more active part in national politics, and the National Government in turn exerts far greater control over the country's industrial processes.

The CIO unions have a larger proportion of their membership represented by unskilled workers than is the case with the AF of L unions. The annual labor turnover is much greater among unskilled than among skilled workers, and, unless the union is able to maintain the "check-off," that is, the enforced collection of union dues from the pay envelope, it is difficult for the union organizers to collect dues and to keep track of the individual members. This is the major reason why the AF of L group of unions has a better chance than the CIO for continuing in power after the war when sooner or later there will come a time of slack employment.

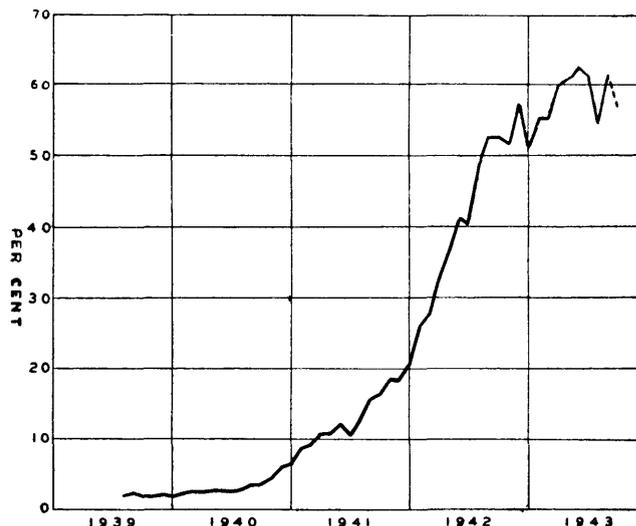
From the point of view of the general public, as well as that of those responsible for industrial management, the situation that has existed during the past few years when rival labor unions were battling for advantage is unsatisfactory. Strikes have frequently been called to gain possession by one or the other union of the power over "collective bargaining" for the establishment's entire labor force. In general, the trend that now appears discernible in the labor movement holds out hope for improvement in employer-employee relationships.

Proportion of the National Economy Devoted to War Activity

The United States began to pour its energies into war activity more than a year before we entered the conflict. Soon after the fall of France, this country began to develop the production on a large scale of heavy materials suitable for waging war. Yet, our program for national defense, which included the production of war materials for our subsequent Allies afforded no strain on our industry until we became a belligerent. Thereafter, the diversion of American industry to war activities proceeded rapidly for a twelve-month period and subsequently made further progress, although this appears to have reached a limit during the past summer.

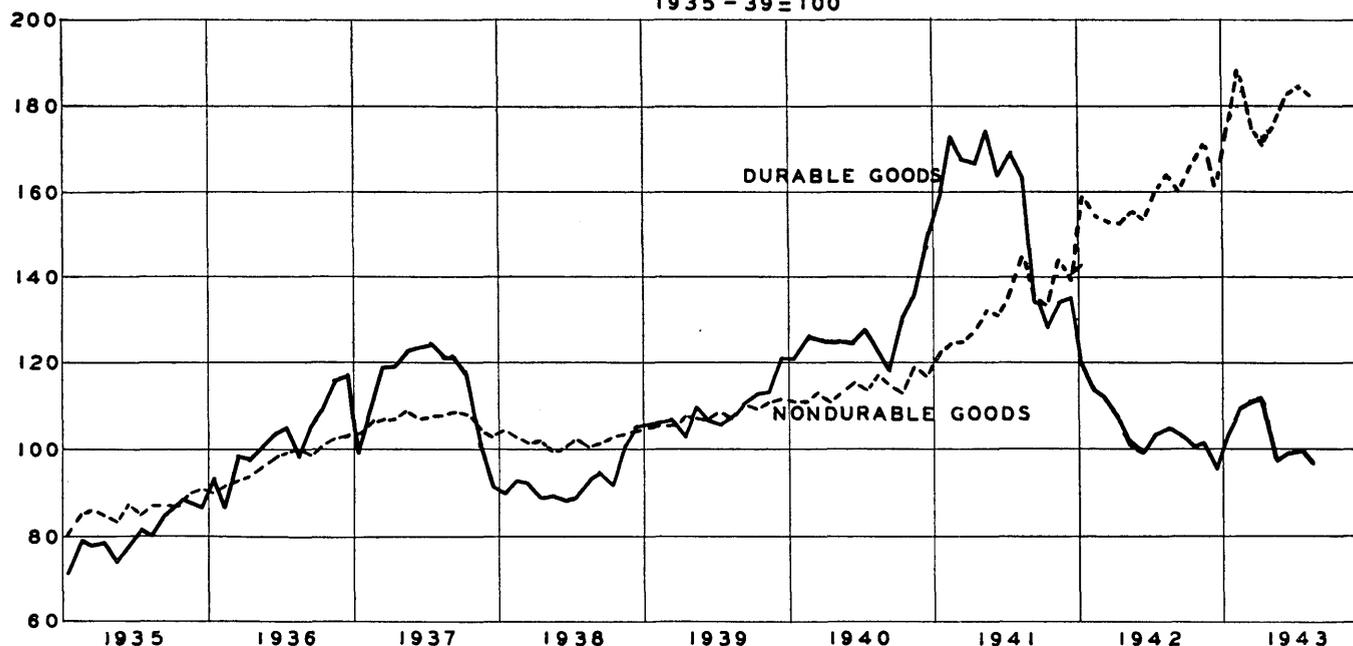
Production for war activity is not shown separately from production for private use in data published by the United States Department of Commerce. Furthermore, the great diversity in the units of materials produced makes it impossible to derive a common denominator expressed in physical terms for the war effort. However, statistics expressed in dollars provide a rough measure of the extent to which the Nation's capacity has been diverted from peace time utility to the creation of a force for making war.

PER CENT OF TOTAL INCOME
FOR WAR ACTIVITIES



INDEXES OF RETAIL SALES

1935 - 39 = 100



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 chart on page 165. The period covered begins in July 1939, just before the start of the war in Europe, and the latest point shown represents September 1943. Only preliminary estimates of income payments are available for the last month, although expenditures for war activities are known.

The ratio shown in the chart has fluctuated rather widely during the past few months but has remained within a range of from 55 to slightly over 60 per cent. Apparently about 60 per cent of the Nation's income is all that can practically be spent on the war effort if the civilian population is to be maintained at a reasonably satisfactory standard of living. However, as long as our two major enemies are unconquered, a decline in the ratio below 50 per cent does not appear to be probable.

The following statistical summary shows expenditures for war activities for the first nine months of 1943, together with the income payments for the corresponding period. The data for the full year 1942 will be found in the August 16, 1943 weekly bulletin, page 130.

1943	Expenditures for War Activities (In Billions of Dollars)	Income Payments
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	11,748
August	7,232	11,658
September	6,952	12,250 (est.)

BUSINESS

Indexes of Retail Sales

The indexes of retail sales, shown in the chart at the top of this page, are compiled by the United States Bureau of Foreign and Domestic Commerce. The

indexes are intended to reveal the trend of consumer expenditures, about two-thirds of which are made through retail-store outlets. Although the indexes prepared by the Bureau are based on incomplete data, the information obtained is believed to be typical of all store sales in the United States.

The indexes are expressed as percentages of the 1935-1939 monthly average and are adjusted to allow for the number of working days in the month and for seasonal factors. Although there is a combined index of all retail-store sales, the separate indexes for durable goods stores and nondurable goods stores are more revealing.

The durable goods index declined substantially from the summer of 1941 to the summer of 1942 but has subsequently fluctuated within a relatively narrow range, close to the monthly average for the base period 1935-1939. The latest figures for August are somewhat below that average.

After the United States entered the war public spending shifted its emphasis from the purchase of durable goods to the purchase of nondurable goods. Although this change was primarily caused by the cessation of the manufacture of most types of durable goods for civilian use, the fact that the public had recently stocked up in durable goods was probably a contributing influence. The general trend of the nondurable goods index was clearly upward until March 1943. The decline in the index in March was followed by a less substantial one in April, and there was a subsequent recovery in May and June. The change in the index during July and August from the June level was so small as to indicate no definite trend.

Newspaper Advertising

Newspaper advertising linage increased more than seasonally in August from the July level. Compared with the data for August 1942, there was a gain of 19 per cent in the total, which was the largest year-to-year

increase reported since the United States entered the war.

Newspaper advertising linage in the dailies of fifty-two cities during August 1942 and 1943 with the per cent change is shown in the accompanying summary.

Newspaper Advertising Linage	Aug. 1942 (Millions of Dollars)	Aug. 1943	Per Cent Increase Aug. 1943 From Aug. 1942
Classified	21.9	31.4	43.3
Display			
Automotive	2.2	2.7	22.7
Financial	1.0	1.3	30.0
General	13.2	17.7	34.1
Retail	56.7	60.2	6.2
Total	95.0	113.2	19.2

In accordance with the trend during the past year, the largest gain was recorded in advertising defined as "classified." There was a somewhat larger gain in retail advertising than has been experienced in recent preceding months. Merchants probably will not advertise much more extensively until after the war, because they no longer have the bargains to bring to the attention of their prospective customers.

THE FUNDAMENTALS

Supply

The steel-ingot production rate last week increased from 100 to 101 per cent of theoretical capacity. It is estimated that 1,800,000 tons will be produced this week, thus establishing a new high record. Demand for steel continues to exceed even the present great volume of production. Although orders for some Government specifications have been cancelled, these cancellations have been more than offset by new orders. *The Iron Age* commented as follows on the possibilities for supplying steel to nonwar users: "The much abused and little understood subject of civilian requirements has been undergoing a subtle but major alteration in its position in recent months. The prospects for increased production of truly civilian items do not seem any brighter now than a year ago. But now the obstacle is labor requirements and components, while a year ago the bottleneck was material. Therefore, while it may be true that there may be a relaxation in war requirements of certain basic materials, it does not necessarily follow that there will be a widespread resumption of civilian goods manufacture."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	79.0	19.5	61.0	51.0	100.0	101.0

(Latest 1943 weekly data; corresponding week earlier years)

There was a moderate decrease in electric-power production last week. Output for the whole country showed an increase of 17.3 per cent from production in the corresponding week of 1942. The Rocky Mountain region was the only area for which a gain was reported for last week from the level that prevailed a year ago.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.80	1.53	2.28	2.21	3.70	4.34

Lumber operations were curtailed last week to a greater extent than was seasonally normal, and the adjusted index declined from 110.5 in the preceding week to 105.7 per cent of the 1935-1939 monthly average. The unsatisfactory supply situation in the lumber industry is not affecting the civilian market seriously,

because craftsmen are not available for residential building, and this type of building is also subject to Government restriction.

	1929	1932	1937	1938	1942	1943
New York Times Index	126.9	37.5	70.9	71.6	119.8	105.7

Demand

Congress may not be persuaded that it is politically feasible to enact fiscal legislation imposing a general sales tax, and the President is not likely to alter his opposition to such a measure when another election is approaching. Nevertheless, there have been numerous reports published in the newspapers that sentiments favorable to the sales tax are developing in Congress. As long as these are given prominence in the press, there will be a powerful influence exerted on the retail markets. Whenever there are threats of either commodity scarcities or substantial price advances, the public naturally hastens to take protective measures by purchasing heavily. If the public deems a 10 per cent increase in costs through a sales tax to be probable, there will be another stampede to the stores.

The Federal Reserve index of department-store sales was nine per cent higher last week than it was in the corresponding week of 1942. This is an improvement over the average increase for the most recent four-week period.

Prices

The average prices of commodities traded on the exchanges declined last week but recovered in later sessions. Net changes were minor. Moody's Spot Commodity Price Index was 247.6 on October 7 and 248.1 on October 14. The Dow-Jones Index of Commodity Futures closed at 94.15 on October 7 and at 94.45 on October 14.

FINANCE

Sources of Purchasing Media

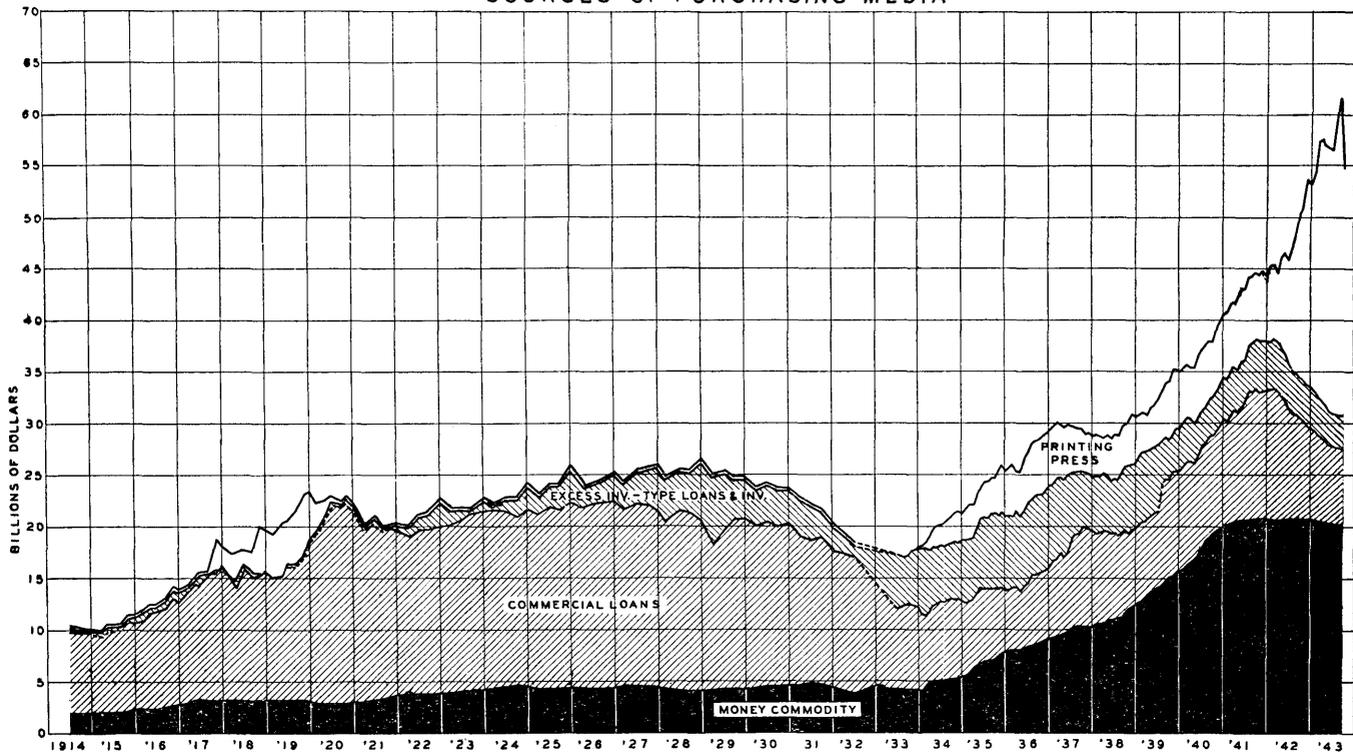
As the chart at the top of page 168 shows, there was a substantial decrease in the purchasing media available to the public during September. This was primarily attributable to the effects of the Third War Loan drive, which will be discussed in a subsequent paragraph.

There was a decrease in purchasing media from the money-commodity source during the month, continuing the trend that has prevailed recently. The decrease was less than \$70,000,000, a relatively small amount, in relation to the Nation's total monetary gold stock of more than \$20,000,000,000. Presumably, a small proportion of the gold held in the Treasury's general fund is being employed for war purposes.

There was a minor decrease in purchasing media derived from commercial loans during September. Total purchasing media from this source, which is not ordinarily inflationary, have decreased substantially during the past year and a half and in relation to total purchasing media from all sources are smaller than they have been at any previous time during the period of nearly thirty years covered by the chart.

There was a small decrease in purchasing media derived from the third source (an excess of investment-type assets representing tangible property with respect to savings available to the banking system). The

SOURCES OF PURCHASING MEDIA



banks' holdings of corporate bond issues and loans on corporate securities, from which these purchasing media are originated, decreased last month.

The decrease in purchasing media derived from the printing press was the largest that has occurred during the war period and was caused by the withdrawal of funds that were previously available to the public into the coffers of the Federal Treasury. Payments made for war bond purchases resulted in raising the Treasury's deposits in the Federal Reserve Banks and other bank depositories from \$5,700,000,000 at the end of August to \$16,500,000,000 at the end of September. Ordinarily, the withdrawal of such a huge volume of purchasing media from the public would have serious repercussions throughout the Nation's business structure. The fact that no pronounced effects were apparently felt is primarily attributable to the wartime policy of many individuals of hoarding purchasing media.

Most of the transfers of purchasing media from private to public accounts were made from checking-account deposits. (This was evident in the chart of demand deposits published on page 164 of the October 11, 1943 weekly bulletin.) The withdrawal of surplus checking-account deposits does not affect the ability of individuals and corporations to meet current financial requirements. Without the cushion of abnormally large liquid funds, substantial withdrawals from balances would make general curtailment of individual spending necessary.

The deflation that accompanied the Third War Loan drive was apparently more extensive than that experienced last spring, when the second campaign was undertaken. The chart shows that total purchasing media increased to a new high level when the high rate of Government war spending had nullified the effects of

the Second War Loan drive. There will probably be a similar experience during the next few months as the Treasury reduces its huge bank balances that were recently accumulated.

RECOMMENDED BOOKS

“*Your Income Tax*,” by J. K. Lasser, Simon & Schuster, New York (\$1.00).

The new 1944 edition of this manual to assist in preparing the 1943 tax returns and the 1943-1944 tax declarations will be even more useful than the preceding issues of this standard tax guide that we have repeatedly recommended to the attention of our subscribers. Federal income-tax requirements have now become so complicated that even professional accountants experienced difficulty in preparing returns that enable them to make the best terms with the tax collector. The layman would be virtually helpless without expert assistance. This reference book is conveniently arranged to find answers to questions as they arise in working over the income-tax forms that must now be returned more frequently than once a year. It will be especially useful in solving the problems that must be met in preparing the returns for March 1944.

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