

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *The Economic Significance of the Bi-Election Returns*

The assumption of control over the Nation's economic mechanism by the Federal Government has proceeded consistently since the present national administration came into power, and the process was enormously accelerated when we entered the war. The situation that has thus been created makes the trend of political thought in the country more significant than it has been at any other time since the Civil War and reconstruction period. Decisions of the country's voting majority will have a profound effect on the way of living of all individuals in the United States during the years to come. It is therefore essential to glean whatever information is obtainable from the scattered elections that were held last week.

The geographical distribution of the elections held was sufficiently wide as to eliminate local considerations in view of the consistent character of the trends revealed. The trends show that without question there is a larger proportion of the people inclined to vote for the Republican Party than there has been at any time since the New Deal's ascendancy into power. Elections held a year ago that resulted in Republican gains in Congress demonstrated the existence of a trend toward conservatism. The New Deal's encroachment on the independence of private enterprise apparently reached a point where protest by the public was aroused.

The opposition party naturally adopts the advocacy of relaxing controls over individual freedom that are becoming irksome. The New Deal Party cannot consistently repudiate managed economy even if it desired to do so. The strength of the opposition is centered primarily on domestic issues. There is general agreement throughout the country on prosecuting the war, even though there is some criticism aimed at certain features of our war strategy. Unless our campaigns suffer grave setbacks, the conduct of the war will not become an active political issue. The employment of our resources in personnel and supplies is held secret, and possible elements of opposition outside of the National Administration do not possess the information requisite for intelligent criticism.

In spite of the observable trend of growing opposition to the New Deal in the domestic field, the party that has held power for more than a decade possesses

powerful resources for maintaining itself in office. The primary source of strength possessed by the New Deal Party in the domestic field is its enormous spending power. It is realized that swollen industrial pay rolls are results of the war, but they are also associated with lavish Federal spending that in turn is linked with the New Deal. Everyone who wants employment at good wages can now obtain it, and the possibility that this opportunity might be lost if there were a change in the national administration is a vital consideration in the minds of voters.

The major weakness of the New Deal is that it is no longer new. The benefits accruing to the "had nots" through Federal spending are now an old story. The cost is beginning to be felt, and tax assessments are mounting even though they cover only a part of the war expenditures. Furthermore, opposition to the Administration has fed on the inevitable irritations engendered by the administration of civilian supply in a war economy.

Evidences that the New Deal tide was turning were first observable in 1938 and have become more pronounced in succeeding years. (Mr. Roosevelt's success in 1940 was credited by political observers primarily to popular approval of his foreign policy that outweighed the growing disapproval of his position on domestic affairs.) It is probably now safe to assume that the Democratic Party cannot win the Presidency next year if Mr. Roosevelt is not a candidate. If he runs for a fourth term, and present indications point to this as probable, political history in this country strongly suggests that he cannot expect so great a margin of the voters' support in 1944 as he had in 1940, and there is the clear possibility of a political counter-revolution.

If the war in Europe is still in progress next November, it is frankly conceded by the Republicans that Mr. Roosevelt will be in a strong position. He can contend that his retention in office is necessary to maintain intact the program for bringing the European campaign to a successful conclusion.

If Germany succumbs between now and next fall and we are still at war with Japan, Mr. Roosevelt can point to the bitter task that confronts the Nation in the Pacific area. However, the problem of defeating one major enemy after the elimination of the other will no longer impress the people as being so formidable. Mr. Roosevelt can then present the argument that he should stay at the head of the Government to see that the peace

is won. This position will be convincing to many, but the public's attention will be turned more toward domestic problems. Individuals will be most concerned with the provision of new jobs to take the place of those made vacant by the cessation of part of the Government's war spending. If the majority of the people feel that a reconversion to a peacetime economy can best be accomplished by private industry, the Administration's tenure in office even under Mr. Roosevelt's leadership will be jeopardized. On the other hand, if the public believes that another program of pump-priming offers the most promising means for individual prosperity after the war, Mr. Roosevelt's chances for obtaining a fourth term will be strengthened.

### **The Moscow Conference**

Fortunately for the Allied cause, the Moscow conference can probably be counted as successful. Whatever reservations the attending representatives of the major Allied powers may have had as to the practical aspects of the agreements, there is a promising unanimity of public expression as to the meetings' success. The treatment of the subject accorded by the controlled Soviet press was especially significant. Whatever the Russians may have expected from the conference, it is clear that they believe it to be in their best interests to express satisfaction with its results.

The Moscow declarations are couched in such general terms that they can form only the basis for subsequent specific agreements. The fact that no dissatisfaction on the part of any of the major powers to the conference found public utterance can probably be accepted as assurance that a united front will be maintained for the defeat of Germany.

Any serious lack of accord on the part of the Allied powers in respect to the war could hardly have been kept from Germany's intelligence service and would have been promptly reflected in German propaganda. As it is, the German leaders, representing all factions of the party in power in the Reich, occupy a precarious position. While Germany was winning her battles, Hitler and his party were invincible. The army clique could only carry out the tasks assigned to the military forces by Hitler. The point when the army might possibly have taken control away from the Nazi Party at the time of the battle for Stalingrad has passed.

Any faction in Germany that now attempts to take away the management of the war from the Nazi Party will have the unhappy duty of accepting responsibility for a more than discredited cause. The admission by Lord Halifax that an internal collapse in Germany is a possibility would not have been made in the absence of more definite information than is available to the general public. The majority of men now in responsible positions in the Reich would no doubt be glad to relinquish their offices if this could be done without bringing destruction on themselves. There are many ways in which the present impasse could be broken, but there is no clear way of foreseeing the event.

### **Problem Areas Created by the War Production Program**

Government agencies, such as the War Production Board, have made studies of regional changes in employment resulting from the expansion of specific industries for the production of war materials. The public has

known that there have been concentrations of manufacturing activity in certain areas of the country, but an overall picture of the situation has not been obtainable until recently. The National Economics unit of the United States Department of Commerce has made a study of "regional distortions resulting from the war" that was published in the October issue of the *Survey of Current Business* (pages 9-15, 20). This survey affords valuable information that is useful in appraising the extent of the reconversion task that will confront the country at the end of the conflict.

The authors of the study stated that their work was undertaken in order to determine the extent of the problems of "deflated areas" after the war. The summary printed at the end of the survey suggests that the changes in the regional distribution of manufacturing activity, although extensive, have not been revolutionary. For example, it is stated: "Regional differences are not peculiar to war time; shifts in industry and population have been the rule. The major effect of the war has been to speed the trend that has generally persisted during the development of the country since the turn of the century."

The survey shows that new facilities for war industries as well as contracts for war supplies have tended to go into areas previously industrialized, "areas having transportation, power, labor, and other resources." It was found that employment increased most in localities in which upward trends in employment were apparent before the war. Nevertheless, it was found that there were distinct regions in the country in which wartime industrial development was so extensive and so concentrated as to indicate that there will be serious post-war problems.

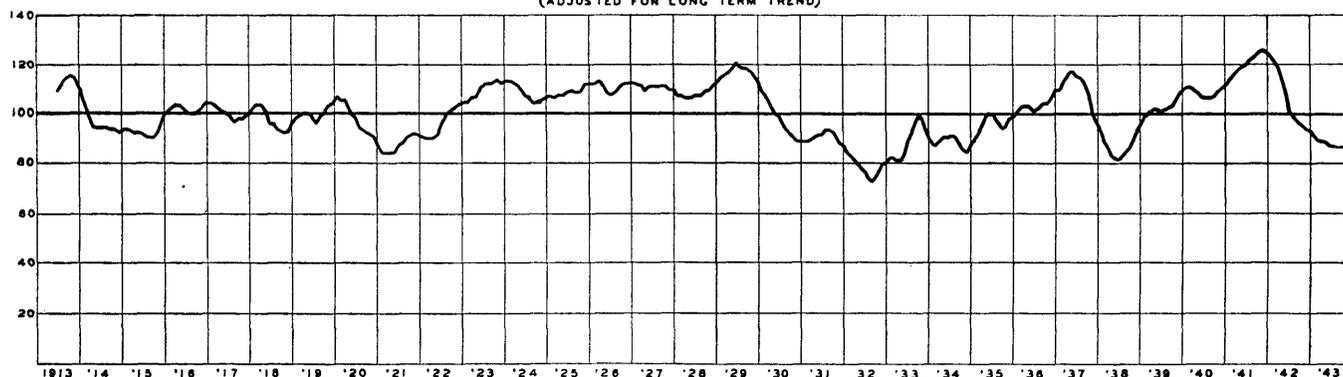
Regions in which increases in manufacturing employment have been especially great are specified as "problem areas of manufacturing expansion." For purposes of the survey, these are divided into two types. Included in one type are the regions in which the concentration of activity in specific industries has been aggravated as a result of the war-production program. The second type includes regions in which new war plants have been constructed on a large scale.

These problem areas are listed in the following tabulation, together with industries, in which concentrations have occurred:

TYPE 1. — INTENSIFICATION OF PREVIOUS TRENDS	
<i>States</i>	<i>Major New War Plants</i>
Connecticut . . . . .	Aircraft, machinery
Washington . . . . .	Nonferrous metals, ship construction
Ohio . . . . .	Aircraft
California . . . . .	Ship construction, aircraft
TYPE 2. — NEW CENTERS OF INDUSTRIAL ACTIVITY	
<i>States</i>	<i>Major New War Plants</i>
California . . . . .	Ship construction, aircraft
Kansas . . . . .	Explosives, aircraft
Washington . . . . .	Nonferrous metals, ship construction
Maryland . . . . .	Ship construction, aircraft
Connecticut . . . . .	Aircraft, machinery
Alabama . . . . .	Explosives
Oregon . . . . .	Shipbuilding, nonferrous metals

Although the discussion of problem areas points out that the major objective of the postwar period to solve problems of reconstruction is the achievement of national prosperity, no recommendations are made for specific procedures. These will no doubt be the subject of studies subsequently to be undertaken by the Department of Commerce.

INDEX OF LIVING STANDARDS  
(ADJUSTED FOR LONG TERM TREND)



**BUSINESS**

*Index of Living Standards*

The index of living standards, shown in the chart at the top of this page, reflects the change in per capita volume of consumer goods produced in the United States. It is a six months' moving average plotted at the sixth month to allow for the normal time for such goods to reach the hands of consumers. It is adjusted for long-term trend by adapting "weights" to the component series of the index each year so that each item has an influence proportional to the value of the year's production.

The index declined substantially during each month after the United States entered the war in December 1941 until the middle of 1942. Thereafter, the downward trend was maintained but at a more moderate pace. Last summer, the decline appeared to have culminated, and the index that had receded to 87.2 per cent of estimated normal in August remained unchanged at that level in September and October.

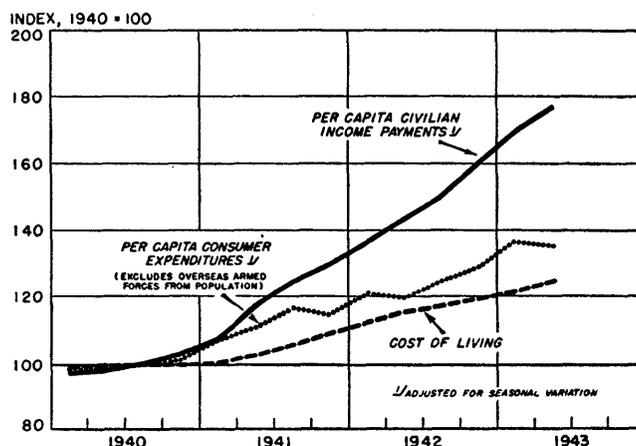
The revision in the Federal Reserve index of industrial production may render necessary a moderate revision in the Institute's index of living standards. The data published by the Federal Reserve System represent the basic information respecting the physical volume of total production in this country. The Federal Reserve index is subdivided by durable manufactures, nondurable manufactures, and minerals. The division by consumer goods and by producers goods is made by the research department of the Federal Reserve Bank of New York. These figures are not available so promptly as are the data furnished by the Federal Reserve System. When the data for the production of consumer goods are available, it will be possible to adjust the Institute's index of living standards accordingly. Probably any revisions that are necessary will be moderate in extent, because changes in the estimates made by the statisticians of the Federal Reserve System were primarily necessitated by change-overs from the production of civilian supplies to the production of war materials. Preliminary estimates indicate that the Institute's index of living standards may be revised to show a slightly higher current level than is now indicated. The revised index will be shown in the December 6 Research Report bulletin.

*Civilian Income and Expenditures*

During the war period, there has been a steady accumulation of purchasing media in the hands of the

civilian public as a result of the disparity between steadily increasing income and the supply of goods for civilian consumption. These trends have been illustrated by a chart recently prepared by the United States Department of Commerce. This shows per capita civilian income payments during 1940, 1941, 1942, and the first half of 1943. Per capita consumer expenditures by civilians, adjusted for seasonal variation, are also charted for the same period. Monthly changes in the cost of living are also shown.

**PER CAPITA INCOMES  
VS. CONSUMER EXPENDITURES**



In a discussion of the chart in the October issue of the *Survey of Current Business*, published by the United States Department of Commerce, it is asserted that: "As more industrial output was diverted to war purposes, a smaller fraction of the total was available to civilians. Although civilian per capita expenditures increased only at about half the rate of increase in income payments, they nevertheless outstripped available civilian supplies. Hence, rising income exerted tremendous pressure on prices of goods growing steadily more scarce in relation to demand. To prevent runaway inflation and to insure equitable distribution of scarcer goods, price controls and rationing were applied."

It is contended that these controls were successful because the rise in the cost-of-living curve has been relatively moderate. This contention is probably justified, although there are influences that are not reflected in the chart. For example, the cost-of-living curve is prepared from data representing standard types

of consumer goods available to civilians in peace time. Many of these are no longer obtainable, and the civilian population in its endeavor to maintain reasonable living standards is frequently forced to resort to substitute articles or commodities for which a high price may be paid in return for relatively lower values.

The vertical distance between the line on the chart showing per capita civilian income payments and the line representing per capita consumer expenditures suggests that there has been a larger accumulation of purchasing media available to the public than has actually occurred. Substantial portions of these purchasing media have been returned to the Government through payment for War Bonds purchased.

It is pointed out that consumer per capita expenditures have declined from 86 per cent of per capita income in 1940 to 66 per cent in 1943. This indicates that net savings and personal taxes, plus the accumulation of purchasing media, have increased from 14 per cent to 34 per cent of income. Tax assessments have increased substantially, but it is estimated that the margin between civilian income and expenditures in 1943 is about \$2.25 per tax dollar, compared with \$2.27 for each dollar of taxes paid in 1940.

## THE FUNDAMENTALS

### Supply

The steel-ingot production rate last week declined to 99 per cent of theoretical capacity from the level of 99½ per cent that prevailed during the preceding two weeks. The curtailment of operations in the steel industry, attributable to the effects of the coal strike, has not been extensive but might have become so if settlement of the dispute had been further delayed. The return of the miners to their work will avert a serious interruption to the steel-production program, but all adverse effects of the strike on the steel industry will not be immediately removed. In last week's issue *The Iron Age* made the following statement: "The need for conserving slender coal reserves was expected to force furnaces on to slow draft and eventually to impair the fast tempo of all major departments. Even if the miners return fairly promptly, the effects of the disruption will be felt for a long time in the steel industry. If doubt existed as to the 1943 happening most detrimental to the war effort, the drawnout crisis at the mines appeared likely to clinch the title when the latest national stoppage began. Ingot production schedules which were figured on Monday this week were purely tentative. Because of the record high operating rate the steel industry has maintained, production lost on account of the strike cannot be retrieved. Although ten-day supplies of coal are held by large steel producers in the East, the giant Clairton by-product works near Pittsburgh holds less than a week's supply and southern centers, hit by a wave of outlaw mine strikes which started in mid-October, have very low stocks. Production losses in the steel industry such as are threatened by the coal mine walkout will heighten several tight situations such as that which prevailed in sheet steel and plates."

	1929	1932	1937	1938	1942	1943
Per Cent of Capacity	77.5	19.5	52.0	61.0	100.0	99.0

(Latest 1943 weekly data; corresponding week earlier years)

Electric power output in the United States increased last week from the total reported in the preceding week.

However, there was also an increase recorded in the corresponding week of 1942 and the year-to-year gain remained about 18 per cent.

	1929	1932	1937	1938	1942	1943
Billion Kilowatt-Hours	1.82	1.53	2.26	2.23	3.77	4.45

Lumber production increased contraseasonally last week, and the adjusted index advanced from 103.1 to 107.1 per cent of the 1935-39 monthly average. At last week's level, the index was about midway of the range within which it has fluctuated during the past year. Probably the industry will not be able to improve its present performance to an appreciable degree, because there is no prospect of relief from its labor shortage as long as the war lasts.

	1929	1932	1937	1938	1942	1943
New York Times Index	126.9	37.5	70.9	71.6	119.1	107.1

### Demand

The dollar volume of department-store sales last week was 10 per cent greater than that for the corresponding week of 1942. The year's active holiday-buying season does not ordinarily start until the last week of November or the first week in December. However, purchases for the men in our armed forces will have to be made early if they are to reach their destinations by Christmas. The Post Office Department has announced that all mailings must be made even earlier this year than last to insure delivery before Christmas. This factor will probably have a noticeable effect on retail demand during the next few weeks. Monthly averages of the dollar volume of retail sales during the past eight years indicate that sales in December usually exceed average sales for the other eleven months by 25 per cent. The variety of goods that the merchants are able to offer this year is more restricted than it has been at any time during the war period, but merchants expect that the dollar volume of sales will be large.

### Prices

Last week, the sensitive wholesale commodity price indexes followed a downward trend. Moody's Spot Commodity Price Index was 247.1 on October 28 and 244.3 on November 4. The Dow-Jones Index of Commodity Futures closed at 94.51 on October 28 and at 93.94 on November 4.

## SECURITIES

### Bonds

Last week, bond prices declined moderately and surrendered part of the gains made in the preceding week. The Dow-Jones average of forty bonds was 96.25 on October 28 and 95.96 on November 4.

### Stocks

The stock market indulged in another peace scare last week, and the securities of corporations having a large volume of war orders led in a general price decline. The volume of transactions on the New York Stock Exchange increased but did not reach the proportions experienced during the peace scare last July that followed the ousting of Mussolini from his Italian dictatorship.

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