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R E S E A R C H R E P O R T S

COMING EFFECTS OF CURRENT EVENTS

Regional Trends

The Nation's war program has made profound changes in regional business trends. Some of these are probably temporary, and others will have more permanent effects. The country's whole economy has been stimulated, even though domestic consumption of goods and services has decreased substantially.

The requirements of the war program have led to the enlargement of our heavy industries and has tended to concentrate populations in industrial centers; trade activity has naturally increased to a great degree where industrial pay rolls are large. New factory employees have been recruited from among agricultural and forestry workers and, to an important extent, from the small town artisans and service workers. It is expected that the majority of these will return to their former occupations after the war. Therefore, some of the regional trends that have been apparent during the war period will subsequently be reversed.

The well-established industrial regions in the Northeast portion of the country were the first to be stimulated by war preparations. Orders were placed where equipment was ready to effect prompt production. Later, new plants were built in other parts of the country, and industrial activity spread to the Mid-West, to the South, and to the West Coast.

After the war the Government will have for disposal important industrial properties, the future use of which will affect business conditions in the localities in which they are situated. The policy that the Government should adopt is certain to be a leading political issue after the war. It has already been proposed that the Federal Government should exert its influence towards achieving a wider distribution of industrial establishments throughout the Nation. The representatives of the more sparsely industrialized regions have maintained that Government plants in industrial regions should be withdrawn from use, so as to increase the market opportunities for outlying sections of the country.

Such a plan is similar to the tariffs imposed by Congress in order to protect our "infant" industries from foreign competition, but in this instance such a policy would be an internal economic control by the central Government. Naturally, the representatives of the industrialized districts are opposing such a plan. If

the Government undertakes to control the regional distribution of economic activity after the war, it will have a complicated task on its hands.

War and Pre-war Regional Trends

In 1938, this Institute made a study of regional trends in the United States that showed the growth rate for each State from 1910 to 1937. This study included statistical analyses of trends in population, industry, finance, and trade. In a summary of the investigation, each State was classified in five groups of relative trends. Number 1 represented a superior growth rate; 2, an above-average growth rate; 3, an average growth rate; 4, a below-average growth rate; and 5, least growth rate.

During the war period, some of the data necessary for making a satisfactory study of regional trends has not been available. However, statistics representing income payments by States have been collected by the United States Department of Commerce, and these afford a general indication of changes in economic trends among the States that have occurred during the war. The accompanying table shows the growth rate for each State in the period 1910-1937, as shown by the Institute's study, the per cent increase in per capita income payments during the 1941-1943 period, and the wartime growth rates of each State on the basis only of the increase in income payments.

<i>Region and State</i>	<i>Growth Rate 1910-1937</i>	<i>% Increase in Per Capita Income 1941-1943</i>	<i>Wartime Growth Rate (By Income)</i>
United States		49	
New England			
Connecticut	3	37	5
Maine	4	72	1
New Hampshire	3	32	5
Massachusetts	5	36	5
Rhode Island	3	44	4
Vermont	3	45	3
Middle East			
Delaware	2	33	5
District of Columbia	1	18	5
Maryland	3	41	4
New Jersey	2	41	4
New York	3	35	5
Pennsylvania	3	40	5
West Virginia	3	44	4

<i>Region and State</i>	<i>Growth Rate 1910-1937</i>	<i>% Increase in Per Capita Income 1941-1943</i>	<i>Wartime Growth Rate (By Income)</i>
Southeast			
Alabama	3	68	2
Arkansas	5	54	3
Florida	2	65	2
Georgia	2	66	2
Kentucky	2	65	2
Louisiana	2	65	2
Mississippi	4	71	1
North Carolina	1	56	3
South Carolina	1	63	2
Tennessee	3	57	2
Virginia	2	45	3
Southwest			
Arizona	2	43	4
New Mexico	1	58	2
Oklahoma	3	75	1
Texas	3	65	2
Central States			
Illinois	4	42	4
Indiana	3	55	3
Iowa	5	61	2
Michigan	3	56	3
Minnesota	3	56	3
Missouri	5	44	4
Ohio	5	48	3
Wisconsin	4	55	3
Northwest			
Colorado	3	53	3
Idaho	2	76	1
Kansas	5	83	1
Montana	3	51	3
Nebraska	5	84	1
North Dakota	5	82	1
South Dakota	5	75	1
Utah	4	70	1
Wyoming	1	35	5
Far West			
California	2	47	3
Nevada	3	53	3
Oregon	3	63	2
Washington	3	64	2

Judging by the record of wartime income payments, the impact of war on the economy of the separate States has varied widely. The general experience seems to indicate that the Western sections of the country have benefited more than have the States located in the Northeast.

Among the New England States, Maine is the only one that has showed an improved growth rate under war conditions. This was apparently attributable to the location of shipbuilding industries on the Maine Coast. The States under the heading Middle East in every case failed to show increases in business activity under wartime conditions commensurate with their prewar growth rates. The fact that the District of Columbia showed a decline from a superior growth rate to the least growth rate was probably caused by the displacement of many Washington residents by transients whose incomes are not credited to the Dis-

trict of Columbia. A considerable portion of Government employees whose offices are in Washington reside outside of the District of Columbia.

The better-than-average growth rate that existed before the war in the Southeastern States remained relatively unchanged in war time. This also applies to the Southwest group, with the exception of Arizona. The Central States group appeared to have benefited on the whole. The increased per capita income during the war period for the eight States in this group was higher than the increase shown for the country as a whole.

The wartime improvement in the growth rate of the Northwest group of States was outstanding. Wyoming was the only State in which an unfavorable trend was indicated. There was apparently no change in the relative growth rates of Colorado and Montana. The remaining States in this group showed decided improvement. There was less change in the trends shown in the four Far West States than might have been expected in view of the airplane and shipbuilding establishments on the West Coast. However, there was a larger-than-average increase in per capita incomes during the 1941-1943 period.

Proportion of the National Economy Devoted to War Activities

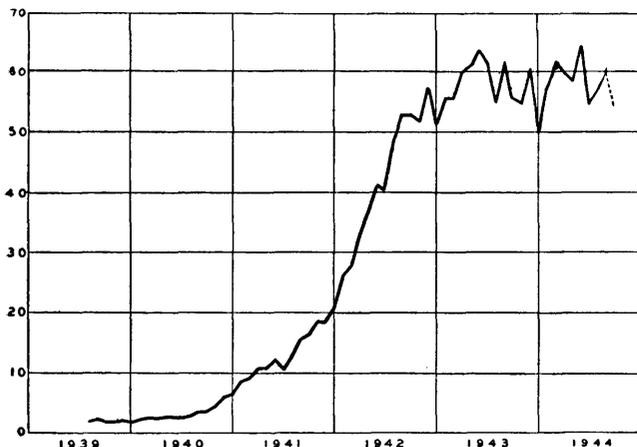
The United States started to divert its energies from peace to war activities more than a year before we entered the conflict. Soon after France was conquered, this country began to develop large-scale production of heavy materials suitable for waging war. Nevertheless, our program for national defense, which included the production of war materials for our subsequent allies, did not seriously interfere with the production of goods for the domestic markets until we became a belligerent. Thereafter the Nation quickly adapted itself to wartime conditions, and for a year after the attack on Pearl Harbor the per cent of total income for war activities increased with only minor interruptions. This process of diverting the Nation's energies from peace to war objectives was completed early in 1943.

Production for war activities is not shown separately from production for private use in data published by United States statistical organizations, although the War Production Board has prepared an index of munitions production. 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. Statistics expressed in dollars provide a rough measure of the extent to which the Nation's capacity has been diverted from peacetime utility to the creation of a force for making war.

Expenditures for war activities expressed as a per cent of the Nation's aggregate income payments (which include payments for war activities in the total) are plotted in a monthly series on the accompanying chart. The period covered begins in July 1939, just before the start of the war in Europe, and the latest point shown represents September 1944. 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

**PER CENT OF TOTAL INCOME
FOR WAR ACTIVITIES**



widely during the past year and a half, but has remained within a range of 50 to 64 per cent. The average for the twelve months of 1943 and for the first nine months of 1944 was 58 per cent. The fact that the standard of living of the civilian population has been maintained at a level somewhat higher than that recorded during major cyclical depressions affords evidence of the country's great productive capacity.

The following statistical summary shows expenditures for war activities for each month in 1943 and for the first nine months in 1944, together with the income payments for the same period.

	<i>Expenditures for War Activities (In Billions of Dollars)</i>	<i>Income Payments</i>
1943		
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	12,545
October	6,989	12,741
November	7,541	12,420
December	6,718	13,460
1944		
January	7,138	12,542
February	7,518	12,114
March	7,726	12,871
April	7,346	12,493
May	7,879	12,300
June	7,587	13,946
July	7,201	12,892
August	7,571	12,661
September	6,998	13,200 (est.)

THE FUNDAMENTALS

Supply

The steel-ingot production remained unchanged last week at the preceding week's level of 97 per cent of theoretical capacity. *The Iron Age* stated: "The break-

neck pace in steel ordering has subsided, steel output is heavier, the scrap market for the first time in weeks is static, reduction of backlogs has been accelerated and shipments are somewhat ahead of the volume of fresh steel business. Thus does October, a month of mixed trends, reflect a continuation, with more overtones, of the transition stage from heavy war production to probable civilian output. There are signs that before many weeks have passed the possibilities of greater production of civilian orders will be much brighter. Unless new or additional flat-rolled business is picked up to replace landing-mat cancellations and plate cutbacks, a reduction in raw steel output at some plants may be expected. With the automobile industry preparing firm postwar orders involving large tonnages, the significance of the revised flat-rolled situation between individual steel producers is large."

	1929	1932	1937	1938	1943	1944
Per Cent of Capacity	80.0	20.0	65.0	54.0	101.0	97.0

(Latest 1944 weekly data; corresponding week earlier years)

Electric-power production decreased last week, and the total for the Nation was six-tenths of one per cent smaller than output in the corresponding week of 1943. The weekly volume of electric power generated this month has fluctuated between five and six per cent below the highest levels recorded in the war period. If production continues at the present trend, year-to-year comparisons during the winter months, when the seasonal peak in output is reached, will be distinctly unfavorable.

	1929	1932	1937	1938	1943	1944
Billion Kilowatt Hours	1.82	1.53	2.26	2.23	4.38	4.35

Lumber production decreased more than seasonally last week, and the adjusted index declined from 105.5 to 99.8 per cent of the 1935-1939 monthly average. As long as the metal trades establishments that attracted labor from the woods and from the lumber mills because of higher wage scales remain active, the lumber industry cannot increase production appreciably. Some of the occupations involved in lumber operations are more laborious than are those in machine shops, and this factor is likely to retard the relocation of workers who have migrated or who have at least changed their occupations during the war period.

	1929	1932	1937	1938	1943	1944
New York Times Index	126.5	36.2	72.4	84.0	103.5	99.8

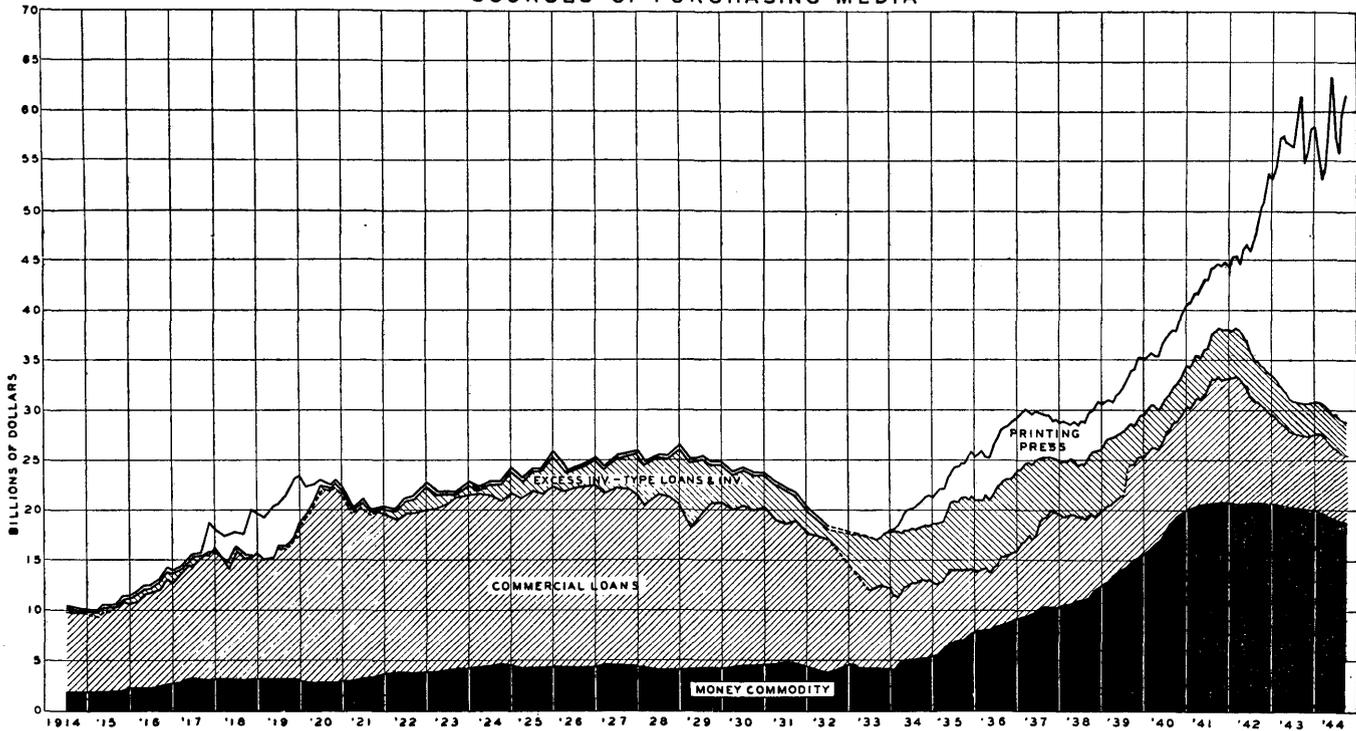
Demand

The Federal Reserve Index of department-store sales last week was sixteen per cent higher than the index reported in the corresponding week of 1943, an equivalent gain was reported in the preceding week. The index for the four weeks ended October 14 was thirteen per cent higher than the average for the corresponding period last year. This compared with a gain of nine per cent for the year to October 14.

Prices

Spot commodity prices remained about unchanged in the wholesale markets last week, and commodity futures were stronger. Moody's Spot Commodity Price Index was 249.5 on October 12 and was 249.0 on October 19. The Dow-Jones Index of Commodity

SOURCES OF PURCHASING MEDIA



Futures closed at 96.16 on October 12 and at 96.32 on October 19.

FINANCE

Sources of Purchasing Media

As the chart at the top of this page shows, there was a second successive monthly increase in purchasing media available to the public during September. This was primarily attributable to the Government's spending in excess of its receipts from taxes and from individual's and institutional purchases of Treasury bonds out of savings.

There was a decrease in purchasing media from the money commodity source during the month, continuing the trend that has prevailed throughout the year. The decrease was approximately \$100,000,000, which was larger than the decrease of \$70,000,000 recorded in August. Since the United States entered the war, the Nation's monetary gold stock has been depleted by nearly \$2,000,000,000. This represents a shrinkage of about ten per cent.

There was virtually no change in purchasing media derived from commercial loans during September. Total purchasing media from this source, which is not ordinarily inflationary, decreased during the summer months. The trend toward contraction may have been halted by seasonal factors which usually exert an influence toward expansion of such bank credit during the fall months.

There was no appreciable change in the volume of 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 banks' holdings of corporate bond issues and loans on corporate securities from which these

purchasing media are originated were substantially unchanged.

The increase in purchasing media derived from the printing press was smaller during September than it was in August. The Treasury's bank accounts were reduced from \$17,000,000,000 at the end of August to \$14,800,000,000 at the end of September. This indicated the distribution of substantial sums from public to private accounts. As an inflationary factor this was partially offset by a decrease of nearly \$600,000,000 (estimated on the basis of figures made available by the reporting member banks of the Federal Reserve System) in the commercial banks' holdings of short-term Government securities. The reduction in the banks' holdings of short-term Government issues was partly attributable to the maturity of an issue of \$350,000,000 of certificates of indebtedness and partly to the distribution of short-term Treasury issues to non-banking investors.

The deflation that accompanied the Fifth War Loan Drive was more extensive than those experienced during preceding campaigns. Nevertheless, it failed to bring the level of total purchasing media shown in the chart as far down as the low point reached after earlier drives. Total purchasing media at the end of September was approximately at the highest level reached in 1943 and was approaching the high point reached before the Fifth War Loan campaign was undertaken.

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