

# AMERICAN INSTITUTE *for* ECONOMIC RESEARCH

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54 Dunster Street, Harvard Square - Cambridge, Mass.

## RESEARCH REPORTS

### COMING EFFECTS OF CURRENT EVENTS

#### *Employment in the Transition Period*

The adaptability that American industry has shown in the past to meet such drastic changes in circumstances as are occasioned by major wars is likely to encounter a severe test in coming months. If this test is not successfully met, the private enterprise system as we have known it in this country may not survive long into the postwar period. This system has the support of a majority of the public, all of whom are enjoying its benefits, but some of these may be ready to betray it through ignorance and thus play the game of those who are deliberately seeking to destroy it.

Representatives of the various Government agencies, constituting the maze of authorities exerting controls over the Nation's economy, have frequently expressed doubts as to the ability of business to absorb in private employment the numbers of workers now employed on Government war contracts. It is occasionally stated, and is more often implied, that Government intervention will be needed. It cannot be denied that there will probably be a decrease in industrial activity after the war in Europe has ended. However, the chance that this will develop into a prolonged depression is great only if the Government places unnecessary impediments in the way of reconversion. In this respect, the bickerings among the members of the various boards now exerting controls over manufacturing processes are not reassuring.

Before reconversion can become effective, manufacturers must obtain permission to make the products that they wish to sell in the civilian markets. This will involve a complicated procedure unless modifications are made in the existing control mechanism. Similar involved and time-consuming negotiations must be undertaken in order to obtain the Government's sanction to purchase the requisite materials and to hire employees for the enterprise. In various other ways, the Government may introduce rigidities into the economic system at a time when flexibility is especially needed.

#### *The Annual Pay Plan*

An example of one of the difficulties that may be inserted in the path of reconversion is indicated by the proposal of President Roosevelt last week to have a study made of the guaranteed annual wage that has recently been advocated by some of the CIO unions.

In ordering such a study to be made by the advisory board of the Office of War Mobilization and Reconversion, the President contended that the question "is closely connected with the problems of reconversion and the transition from a war economy to a peace economy." It is undeniable that an attempt to force such a plan on industry during the reconversion period would complicate the process as far as private business is concerned.

Desirable as it would be for all wage earners to have a definite assurance of continuity of employment, any attempt to bring this about by a law, such as the Wage and Hour law, would serve as an obstacle to reconversion. It would add an element of uncertainty to the conduct of any private enterprise and thus tend to decrease the chances for full employment by any other employer than the Government.

Numerous studies of employment regularization have been made during the course of the past few decades that have sought a solution to the misfortune of irregularity of employment. Some of these have been made by public agencies and others by private; and an examination of the most important of these investigations indicates that measures can be taken that will promote the regularization of employment but that any guarantee of regular employment is meaningless when its validity depends on the maintenance of a high level of corporate earnings that are in actuality subject to fluctuations.

#### *Subsidies for Inefficiency*

Although output per man-hour in the munitions industries increased throughout the greater part of the war period, this record was made possible by the standardization of operations and not by an increase in general plant efficiency. Recently, employers have been charged with deliberately slowing down production on "cost plus" Government contracts and trade union officials and members have been accused of deliberately restricting output to arbitrarily established "reasonable" quantities. Furthermore, during the war period, the managers of enterprises have lost incentives to seek efficiency because of the numerous elements limiting profit returns. Plant efficiency is also lower during a period of full employment than it is when there is a margin of labor supply sufficient in size to force the employee to compete more actively for employment.

After earlier depressions in the Nation's history, the ground work was laid for a return to prosperity by the existence of circumstances favorable to the establishment of new businesses and the reanimation of old ones. If before the reconversion process has had an opportunity to develop, the Government intervenes and insists that there shall be no unemployment even temporary in character, private initiative may be robbed of its chance to carry out the transition of industry to peacetime conditions, and ultimately those who receive temporary benefits from the Government's efforts will find that the advantage is only short-lived.

## THE FUNDAMENTALS

### Industrial Production

The Institute's index of industrial production, shown in chart form at the top of page 51, expresses changes in the physical volume of United States manufactures in relation to estimated normal. New productive methods are constantly being developed to increase the Nation's industrial capacity, and allowance must be made for this factor in order to indicate the extent to which this capacity is utilized at any time. The index has been adjusted for long-term trend in accordance with our method described in the "Explanation of Basic Charts," a copy of which has been sent to all subscribers.

According to the index, the Nation's volume of physical production reached a record high level in relation to long-term trend in January 1942, and during the next two and a half years, this high level was maintained with relatively minor fluctuations. It is interesting to observe that the level of operations in relation to normal maintained during this period of the present war exceeded the level maintained during the First World War period. Furthermore, the effort was sustained over a longer period of time than it was during our participation in the war a quarter of a century ago. The decline in the index that occurred after the middle of 1944 was halted during the final months of that year. The index has recently remained within a narrow range, and the March index of 127.2 per cent of estimated normal is substantially at the same level as the February index of 127.5.

Last week, the steel-ingot production rate advanced from 94½ to 97 per cent of theoretical capacity. Although last week's rate was about one per cent lower than the rate that prevailed during the corresponding week of 1944, total steel tonnage produced was nearly as great as output in the earlier period because the industry has acquired some new facilities during the past twelve months. It is estimated that output at the current rate will be 1,774,900 net tons of steel ingots and castings, compared with actual production of 1,777,000 tons a year ago.

Difficulties encountered by the Government in attempting to maintain a balance between the proportion of the Nation's manpower that is requisitioned for armed services and that allocated for the production of war materials are indicated by the following statement made by *The Iron Age*: "The manpower shortages in the steel industry are more serious than being just a matter of so many employees needed. The real shortage is in certain types of skilled and unskilled labor at spots where the lack of such help eats into output.

While ingot production has been bettered recently, the processing of steel into finished products has slowed down, thus causing raw steel in some cases to be in excess of finishing mill needs. With the draft making more inroads in steel mill forces and with the present manpower in the most skilled jobs bordering close on the point of exhaustion after three years of record-breaking activity, the immediate outlook for significant increases in steel output is not promising. While the steel industry was satisfied to see an ending of severe weather conditions but was still struggling with manpower deficiencies, the heavy volume of steel orders and directives were such as to confound even the best efforts to solve the problem of better distribution."

	1929	1932	1937	1938	1944	1945
Per Cent of Capacity	95.5	22.5	91.0	36.0	98.0	97.0
	(Latest 1945 weekly data; corresponding week earlier years)					

There was a small contraseasonal decrease in electric-power production last week from the preceding week's level. The total number of kilowatt-hours produced was approximately the same as the number generated in the corresponding week of 1944. Gains in the Central Industrial, the West Central, and the Southern geographic regions were offset by decreases in the New England, Mid-Atlantic, Rocky Mountain and Pacific regions.

	1929	1932	1937	1938	1944	1945
Billion Kilowatt-Hours	1.68	1.48	2.15	1.98	4.40	4.40

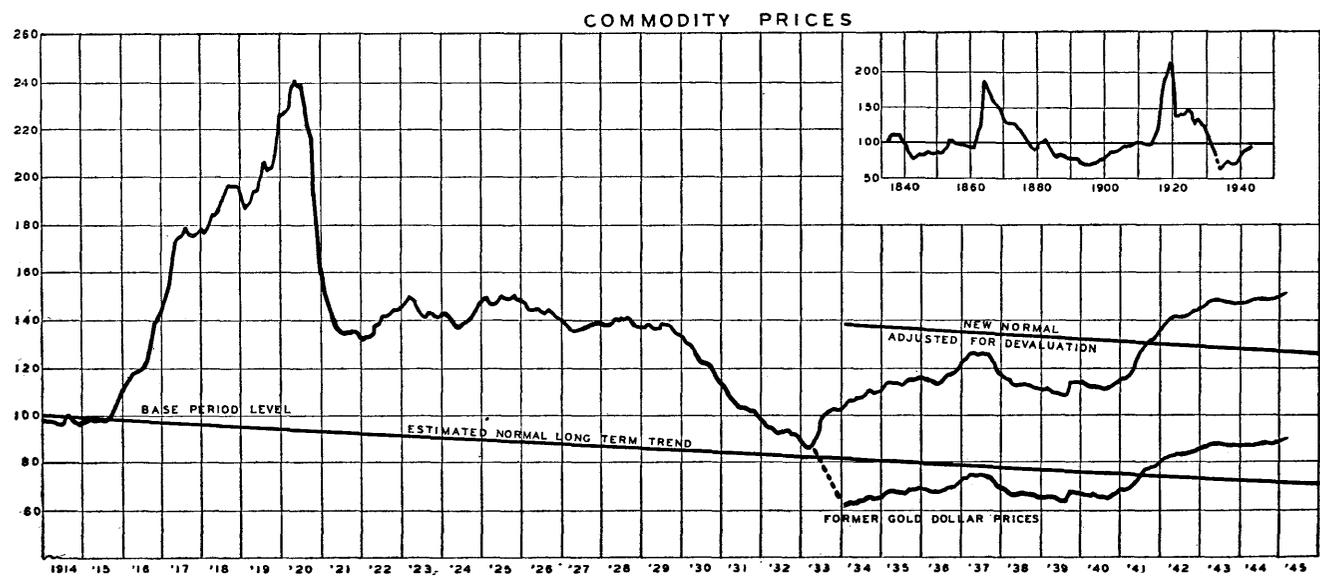
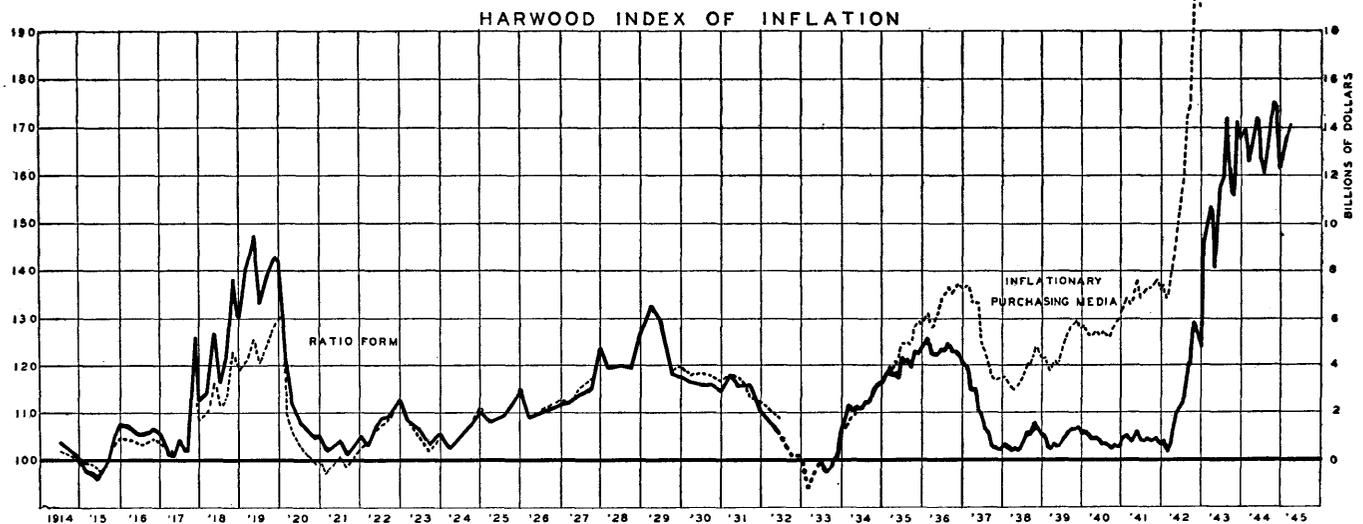
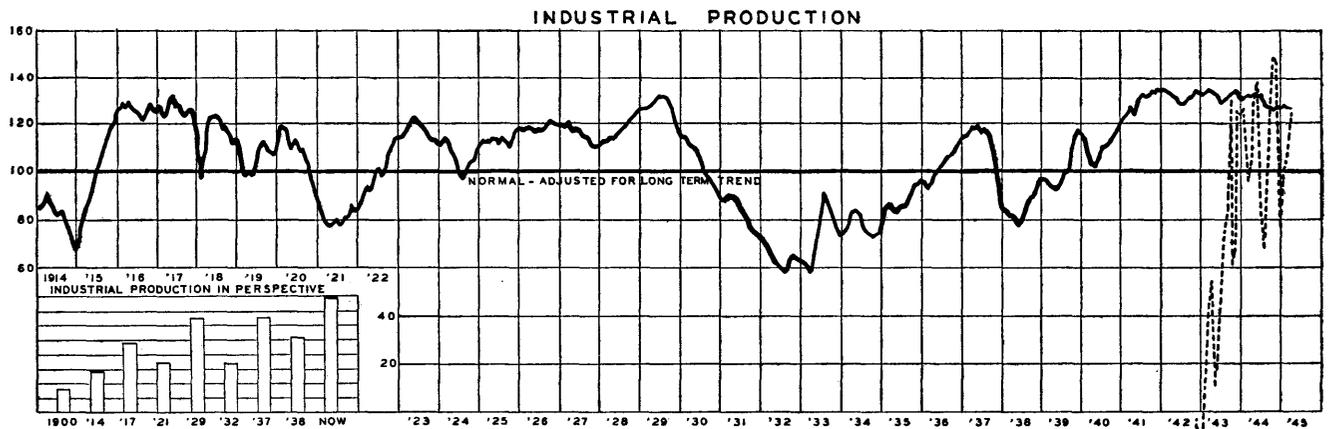
Last week, lumber production failed to increase seasonally, and the adjusted index declined from 105.6 to 104.3 per cent of the 1935-1939 monthly average. The current situation confronting the lumber industry this year was summarized as follows by the United States Department of Commerce: "Continued high war demand for lumber and a low level of production have created the most critical lumber situation since the beginning of the war. Total lumber requirements for 1945 are expected to remain around the 1944 level (about 40,000,000,000 board feet) while the total 1945 lumber supply may fall as low as 31,000,000,000 board feet, creating a deficiency of about 23 per cent. This condition, which compares with an 18 per cent lumber deficiency in 1944, is by and large the result of manpower and equipment shortages created by the war and has necessitated more stringent controls on lumber distribution and use."

	1929	1932	1937	1938	1944	1945
New York Times Index	142.1	40.8	85.0	60.3	115.8	104.3

### The Harwood Index of Inflation

The preliminary index of inflation in ratio form for March is 170.5, indicating an advance of about a point and a half from the February index, which was revised from 167.2 to 168.8. The chart on page 51 shows the index of inflation in ratio form, which is the ratio of all purchasing media available for use to the portion that is not inflationary. The dotted line on the chart shows the actual totals of inflationary purchasing media. (During the war period, inflationary purchasing media have expanded so extensively that it is necessary to chart the data on the same grids with the industrial production chart. The scale used is indicated on the right-hand side of the index of inflation chart, but in order to avoid confusion the figures are extended only midway between the two charts.)

The decline in the index in December reflected the



effects of the War Loan campaign that resulted in the withdrawal of substantial amounts of purchasing media from the public. Although the campaign began in November, transfers of funds in payment for war bonds

were not apparent to a major extent in reports of the banking system and of the Treasury until December. The decline in the index of inflation that accompanied the Sixth War Loan campaign was of only short dura-

tion, as indicated by the advance in the index in January. This was continued in February and during the first half of March. (The March preliminary index was based on data for the fourteenth of the month.) Fluctuations in the index of inflation since the Treasury has undertaken war bond drives have traced a roughly similar pattern. Following each drive, the index declines for a period of a month or two and then advances until the effects of the next bond-selling campaign become evident in the banks' reports.

Fluctuations in the index during 1945 will probably be as wide as those in 1944, but there will apparently be only two up and down swings this year, whereas there were three in the preceding year. The Treasury has announced that there will be only two war loan drives this year, compared with three in 1944. The Secretary of the Treasury announced that the objective of the Seventh War Loan campaign has been set at \$14,000,000,000, of which \$7,000,000,000 is allocated to individuals and an equal sum to other nonbank investors. Mr. Morgenthau stated: "The major emphasis throughout the entire drive will be placed on the quota for individuals which is the highest established in any of the war loan drives." The drive for individual subscribers will extend from May 14 to June 30, and the drive for institutional subscribers will not start until June 18, and subscriptions will be received through June 30. The index of inflation may advance to a new high level for the war period in the meantime.

The next downturn in the index probably will not occur until late in May or early in June, when transfers of funds in payment for Government issues purchased in connection with the drive are reflected in the commercial banks' and Treasury data on which the calculations of the index are based. However, the advance in the index may be slowed up at an earlier date if the Treasury is successful in its plans to appeal to regular subscribers to war bonds to increase their investment efforts before a start is made on the war loan campaign. The Treasury announced: "An intensification of activities in the sale of Series E bonds will begin April 9, when millions of persons on payroll savings plans throughout the country will be asked to enlarge their participations as a part of the Seventh War Loan."

#### Other Demand Factors

Last week, the dollar volume of department-store sales was 23 per cent larger than it was during the corresponding week of 1944. The volume of consumer goods buying during the March income-tax payment period was better sustained than was believed probable before reports became available. The proportion of Federal income taxes collected through wage and salary withholdings is now so great that the quarterly

settlement period for tax liabilities that are not met from withholding is much less influential than it formerly was. However, for those whose incomes depend on dividends, interest, and annuities and professional fees, quarterly income-tax payment periods are still important. With the pressure of this adverse factor temporarily removed, larger sales volumes may be expected during the second half of March, when the climax of the Easter buying season occurs this year.

### Commodity Prices

The United States Bureau of Labor Statistics' index of wholesale commodity prices advanced fractionally in March, following a trend that has persisted since September 1944. The February index was 150.3, and the March index was 150.6 per cent of the 1913 monthly average. The index, which is shown in chart form on page 51, is a weighted average of 889 quotations. The index is also shown on the former gold-dollar basis since January 1934, when the dollar was devalued. The estimated long-term trend line and the new long-term trend line, adjusted for devaluation, are useful features of the chart. The small insert in the upper right-hand corner of the commodity price chart shows changes in commodity prices during the past century on the basis of the former gold dollar.

Separate indexes are published each month showing price changes in more than thirty classes of commodities, and these data are in turn combined to form ten important commodity groups. There are indexes for three economic classes, raw materials, semimanufactured products, and manufactured products. The following table shows changes that have occurred in the major classifications of the wholesale commodity price index. The March preliminary indexes are compared with the revised indexes for earlier significant periods.

UNITED STATES BUREAU OF LABOR STATISTICS  
WHOLESALE COMMODITY PRICE INDEX  
(Monthly Average 1913=100)

	Mar. 1929	Mar. 1932	Mar. 1944	Feb. 1945	Mar.* 1945
Farm Products	149.9	70.2	172.9	177.1	177.8
Foods	153.1	97.0	162.9	162.8	162.8
Hides and Leathers	158.9	113.5	171.7	173.3	173.4
Textile Products	161.3	102.4	170.7	172.9	173.1
Fuel and Light	133.9	110.8	135.4	136.9	136.7
Metals and Products	112.7	89.0	114.2	114.8	114.9
Building Materials	170.5	129.1	201.4	206.0	206.2
Chemicals	125.8	100.7	†	†	†
House Furnishings	166.6	136.9	185.3	188.6	188.6
Miscellaneous	118.1	92.7	134.0	134.8	135.2
Raw Materials	144.8	81.5	164.8	168.5	168.9
Semimanufactures	128.3	81.2	125.1	126.6	126.7
Finished Goods	136.6	103.0	144.8	146.4	146.7
All Commodities	137.7	94.6	148.7	150.3	150.6
	* Preliminary		† In process of revision		

### Statistical Summary; Production, Purchasing Media, and Prices

	1944									1945			
	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.	Feb.	Mar.*
Index of Industrial Production ..	132.1	132.8	132.4	132.2	127.8	127.4	126.2	125.8	127.5	127.0	128.1	127.5	127.2
Index of Inflation (Ratio Form)	165.4	170.2	172.4	165.2	160.8	165.8	169.8	175.1	174.8	161.5	165.6	168.8	170.5
Commodity Price Index.....	148.5	148.6	148.7	148.9	148.8	149.0	148.6	148.7	149.1	149.7	150.0	150.3	150.6
Commodity Price Index.....	87.7	87.9	88.0	88.1	88.0	88.2	87.9	88.0	88.2	88.6	88.8	88.9	89.1
(In terms of former gold dollar)			* Preliminary Estimate.										