
FEDERAL RESERVE BULLETIN

VOLUME 29

April 1943

NUMBER 4

FURTHER SHIFT TO WAR ECONOMY

During the first quarter of 1943, transition of the country's economy to a war basis, already further advanced than at any time during the first world war, continued at a rapid rate. Over a million men were added to the armed forces, making a total of about 8 million; production of the implements of war increased considerably; and output of raw materials used for war rose further. Over 10,000 airplanes were produced in the first two months of the year and at merchant shipyards deliveries in the first quarter totaled over $3\frac{1}{2}$ million tons. Nevertheless, shipping continued to be a factor limiting the movement of troops and supplies abroad. War expenditures rose to 7 billion in March, up a billion dollars from December.

Civilian purchases of durable goods were sharply curtailed, but retail sales of consumers' nondurable goods continued at a high level during the first quarter of the year. Retailers were ordering heavily for future needs but were receiving smaller amounts of goods than a year ago, and retail inventories declined from the high levels of last summer and fall. Inventories of consumers' goods in the hands of wholesalers and manufacturers, which had already been considerably reduced in 1942, continued downward.

LABOR SUPPLY PROBLEMS

In the first quarter of this year some of the men going into the armed forces came from classrooms and the number drawn from industry and agriculture was much less than a million. Nevertheless, these withdrawals, coming at a time when there was no longer an unemployed labor surplus on which to draw and when demands for war workers were still increasing, necessitated further additions to the labor force and further curtailment of output of goods and services for civilians.

As labor shortage problems became more difficult to meet, the War Manpower Commission ordered the lengthening of hours of work outside agriculture to 48 per week, and altered deferment policies to take fewer men from farms and also to encourage those in a few selected nonessential industries to seek other employment. In most war industries hours of work were already at least 48 per week, so that the order affected mainly other industries, which for the most part have been producing civilian goods and operating on a work-week of 40 to 44 hours. The order is to go into effect gradually, starting with war centers, as circumstances in particular areas and industries may demand and permit.

Decisions of the War Labor Board

REVIEW OF THE MONTH

continued to reflect the war-time policy of discouraging further wage-rate increases now except in special cases where necessary to promote the war effort, to raise substandard rates, or to correct serious inequities. It was recognized that proposed general wage increases would contribute to increasing production costs as well as to raising consumer incomes, and would hinder the stabilization of commodity prices and of the cost of living. Farm wage rates, however, which were at low levels relative to those in industry, continued free of control as did rates paid by employers of not more than eight workers.

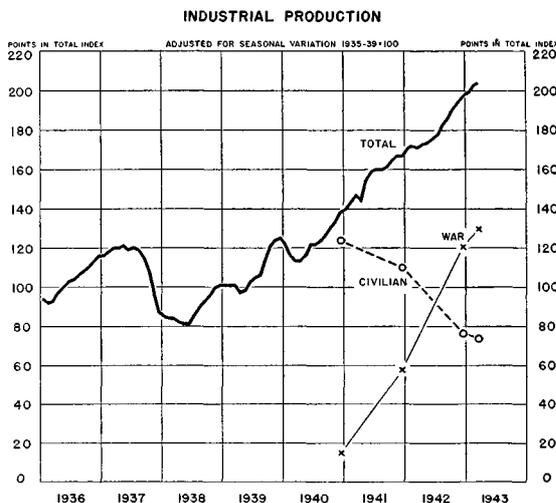
Toward the end of the quarter there was considerable discussion of the prospect for withdrawal to the armed forces during the rest of this year of at least three million additional workers; of the extent to which these workers might be replaced by women and others not now in the labor market; and of possible methods by which output per worker might be maintained or increased notwithstanding employment of many untrained workers. Crucial questions before the country were those relative to the effectiveness of compulsory as against voluntary methods of recruiting and allocating labor and of minimizing absences from work.

PRODUCTION FOR CIVILIANS

It appeared likely, in view of the program for increasing the armed forces and war production, that output of goods and services for civilians would be curtailed further. Currently, civilian output is lower than in the five-year period before the war started, and considerably below the level of the autumn of 1941. Output of some types of products, especially metal products, has been drastically curtailed since the outbreak of the war, but in some

other lines production for civilians is still as high as or higher than in the period 1935-1939.

At factories and mines, where a large part of war production is concentrated, output for civilians has declined about two-fifths since the summer of 1941 and about a fourth since the period 1935-1939. War production was a negligible factor in industrial production before 1939 while by March of this year, when the Board's index was estimated at 205 per cent of the 1935-1939 average, war production accounted for nearly two-thirds of the total. This is shown on the chart.



The figures on physical volume of industrial production for war and civilian purposes are based primarily on estimates for individual industries and have been tested by other calculations, but at best are only rough approximations. Data for war and civilian production shown only for December 1940, 1941, and 1942, and for March 1943, connected by straight lines.

A considerable part of the decline in industrial output for civilians has reflected the diversion to war purposes of materials previously going into output of producer's goods, but there have also been important reductions in output of final products for consumers. In the construction industry activity for some time has been almost exclusively on war projects, including new plants for war production as well as

REVIEW OF THE MONTH

cantonments, airfields, and other military projects.

Output of farm products for civilians is close to the level of the 1935-1939 period. Total agricultural production is up but shipments of agricultural products for the armed forces and lend-lease have been substantial. Imports of agricultural products have declined.

Farmers are planning to increase acreage of most major crops this year, according to March 1 reports, and total prospective plantings, other than of cotton and winter wheat, are larger than last year by 10 million acres or 4 per cent. Seedings of winter wheat last fall were slightly smaller than a year earlier, while cotton plantings will be permitted to exceed the 1943 acreage allotments by 10 per cent. Largest percentage gains are indicated for high protein and oil bearing crops and some of the other crops which have risen in importance as a result of the war program. If weather conditions should happen to be as unusually favorable as last year and if difficulties encountered in harvesting and in other parts of the farm program should not be too great, total crop production would be as large as last year and considerably larger than in the 1935-1939 period. The only 1943 crop estimate made so far is the December winter wheat estimate of 625 million bushels, which would be 11 per cent less than the 1942 bumper crop.

A large part of the increase in acreage from 1942 is in feed crops, where acreage intentions of farmers are close to the Federal goals set to support the increasing number of livestock on farms. Acreage intentions for food crops essential to supplement war diets average 10 per cent higher than last year as compared with Federal goals 20 per cent above last year.

Prospects are for a continued growth in output of livestock products this year but, owing to military requirements, supplies available for civilians may be considerably curtailed from peak levels reached early in 1942.

Transportation of goods destined for civilian use is in smaller volume than before the war, reflecting mostly the varied reductions in civilian output in industry, construction, and agriculture. Elsewhere in the economy the situation is uneven. There has been increased activity in some lines, for example, in the entertainment field, while in others, such as automobile sales and services, operations have been sharply curtailed.

Recently the labor supply situation has come to be an increasingly important factor limiting civilian output and the prospect is that the pressure on civilian activities generally from this source will increase. The effects of this will be felt particularly in nonessential industries and in certain service lines where pay is relatively low and transfer to higher paid jobs fairly easy. Furthermore, most of the restrictions imposed on civilian output at earlier stages of the war program primarily to conserve metals and other materials and to utilize existing industrial and transport equipment for war purposes continue in effect; and in some instances these restrictions are being strengthened. During the first quarter, however, there was an increase in the allocation of steel for manufacture of agricultural implements and in the amount of wool allowed for use in production of cloth for civilian use; and toward the end of the quarter there was some indication that output of a number of work clothing and household items would be somewhat increased.

REVIEW OF THE MONTH

SUPPLIES AVAILABLE TO CONSUMERS

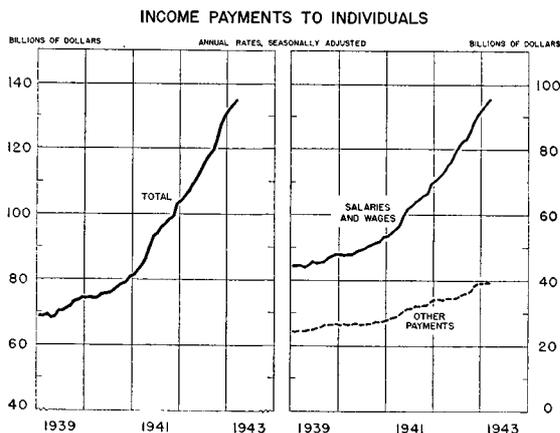
During the first part of 1943, as in the latter part of 1942, consumers were still able to buy somewhat more goods than were currently being produced for them because they were able to draw upon stocks previously accumulated in the hands of producers and distributors. This was particularly true of metal products, but was not limited to them. Supplies of certain essential civilian items like shoes, canned foods, meats, fats, and oils were reduced to such an extent, mostly as a consequence of large military requirements, that with civilian demand at a high level, rationing plans for these goods were put into effect beginning in February and March.

In the middle of February, consumer buying of textile and apparel items was heavy in anticipation of possible shortages. At department stores, where such items account for two-thirds of total business, sales in February were a third larger, in value terms, than a year ago. In view of the rise in prices, the increase in physical volume was considerably smaller than the rise in dollar amount, but the extent of this difference is difficult to measure in a period like the present when changes in real prices are obscured by modifications of quality. Additional information about changes in sales at department stores is given in an article on page 298 of this BULLETIN.

SUPPLIES, INCOMES, AND PRICES

Upward pressure on prices has continued to be exerted by further reductions in supplies and increases in income payments. Indexes of living costs showed small increases from December to February, although wholesale prices of farm products continued to advance sharply. Income payments to individuals, shown in the

chart, reached an estimated annual rate of more than 134 billion dollars in March, as compared with 130 billion in December and an average of 67 billion in the 1935-1939 period. Tax payments rose in the first quarter, and savings—nonspending—apparently increased further.



NOTE.—Increased agricultural income represents the largest part of the rise shown since 1939 in "other payments." "Salaries and wages" include military pay. Data based on Department of Commerce estimates. Monthly figures raised to annual rates; latest shown are Federal Reserve's estimates for March.

The large volume of savings reflected to some extent inability to buy goods which were no longer available. Rationing of important commodities like meats and canned goods may serve to limit somewhat the further upward pressure of rising money incomes on prices of such commodities, but rationing does not affect directly the factors making for increased costs of production and distribution. Pressure of higher incomes on prices of such commodities as are not rationed may be expected to continue except as taxes and savings may increase. Meanwhile price and wage controls are important in limiting increases in costs as well as in incomes.

Proposals for collection of income taxes currently at the source were under discussion in Congress during the first quarter of the year, while consideration of the

REVIEW OF THE MONTH

President's request for 16 billion dollars of additional taxes and savings was temporarily deferred. Meanwhile, in the April drive to raise 13 billion dollars, the Treasury is striving to obtain as much as possible from sources other than banks in order to divert current income into the war effort and to avoid adding to the existing money supply. The December drive raised 8 billion dollars from nonbanking sources, and this amount has been set as a minimum goal for the present campaign. The amount to be obtained from commercial banks is limited to 5 billion dollars, about the same as was obtained in the December drive. Every effort will be made this month to reach a larger number of nonbank buyers. It is particularly important that the maximum possible amount should be subscribed from current income, thus reducing amounts available for spending on the limited supplies of goods available. A description of the issues to be offered and the selling organization for the Second War Loan Drive is given in another article in this BULLETIN.

WAR ECONOMY

While aggregate civilian consumption is not far below the pre-war period, especially taking into account consumer use of houses, automobiles and other durable and semi-durable goods which consumers had when controls were established, the economy currently is on a war basis to an extent far beyond any previous period. Eight million men, or approximately an eighth of the total labor force, are in the armed forces, as compared with 4 million or a tenth at the peak in 1918. Nearly half of the current national output of goods and services is for war purposes; in the autumn of 1918 the corresponding figure was less than one-third. The United States is train-

ing many more men than before. It is furnishing military equipment for its own forces and to some extent for its Allies, whereas in 1918 a large part of the equipment used by American forces was furnished by Britain and France. Much more equipment is required this time, moreover, as warfare is much more highly mechanized.

Shipping requirements are a great deal larger for many reasons, including the greater distances involved in military operations. Merchant ships are being constructed in much greater volume; the tonnage completed in the first quarter of this year was more than the total built in all of 1918. Navy building is on a much greater scale and production of aircraft, now employing over 2 million persons, directly or indirectly, was extremely small in 1918. Additions to facilities for producing materials as well as finished products have been at a rate far beyond anything known before in this country.

These achievements raise the question as to how it has been possible to carry on such a war program without more reduction in use of consumers' goods. As has been indicated, consumers have been using goods they already owned themselves and have been drawing on stocks held by retailers, wholesalers, and producers. Also, the reduction in output of finished products for consumers has been less than the reduction in total output for civilians because there has been especially sharp curtailment in output of capital equipment for nonwar uses. As a result of these various factors the reduction in living standards has been considerably less than the decline in production for civilians. War production, meanwhile, has increased much more than output for civilians has declined.

REVIEW OF THE MONTH

SOURCES OF WAR POWER

Clearly the carrying on of a very large war program has been made possible to a large extent by drawing on many different types of resources on an entirely new scale. The advanced state of the industrial and administrative arts and the availability of modern capital equipment have been basic factors making possible very great expansion of total output. Also of importance was the vast supply of unutilized labor resources when war production started. In 1939 there were many more unemployed to draw on than in 1914—perhaps 8 mil-

lion more. The average number of hours worked in industry was down to around 38 per week in 1939 and could be increased substantially—currently they are around 44—while in 1914 average hours were probably at least 50 per week in most lines and could not be increased to advantage. Employment on civilian projects has been reduced considerably more this time, as whole industries have been converted to the war program. Altogether it is clear that transition of the economy to a war basis has gone considerably further than at any time in 1918.
