

# The Economy in War and Transition

## A Review of 1945

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**T**HE year 1945 saw the conclusion of the great war production effort which—after skillful direction and application of the overwhelming resources by the armed forces in cooperation with our Allies—finally engulfed our enemies in complete defeat. The year likewise marked a turning point to lower levels of output and posed a challenge to our ability to secure similarly adequate economic results in a peacetime economy.

The war had demonstrated what could be done production-wise under the persistent drive of unfettered demand. It did not, however, give an equally valid demonstration of our ability to work out the problems of generating sufficient demand to assure reasonably full utilization of our resources and a stable rate of growth commensurate with the increase in productivity and growth of population.

### Production—Key Factor

The shift in the balance towards the demand side did not come immediately after victory. As a matter of fact, the time involved in shifting production over to peacetime goods, the continued requirements for shipments of relief and other supplies abroad, and the deferred demands at home, meant that the problem at the end of the year—as throughout the war—was production. Speedy resumption of civilian production to levels considerably in advance of prewar was the key to the immediate difficulties of employment and inflation at home, as well as to the fulfillment of many of our international commitments.

Nevertheless, the swift and drastic readjustments in Government procurement, productive activity, and the disposition of the labor supply, consequent on the termination of hostilities, spelled the end of a clearly defined period in our economic history.

### Expansion and Stability

For a period of over 5 years, until the summer of last year, the economic energies of the country were directed towards war. Against a background of recovery from the severe depression of the early '30s, which had merely reattained the prior peak of the '20s by the end of the decade, the economy forged ahead in 1940 and 1941 under the stimulus of domestic defense preparations and foreign

military needs. The progressive upswing was intensified after Pearl Harbor to culminate in a vast expansion of productive activity and the largest utilization of labor and facilities ever attained.

Of significance during this period was not only the size and speed of the expansion that took place, but that after the peak of resource utilization had been reached, business activity was maintained at these high levels as long as the military demands required it—indicated most clearly in 1944. Not only were ample sinews of war provided, but living standards on the average were not impaired.

### Contraction Sets In

In contrast with the preceding year of stability, the dominant feature of 1945 was the change in the direction of economic activity exemplified by the downward movement that set in as the purposes and objectives of the economy turned from war to the pursuits of peace.

From an economy dominated by the Government demand for goods and services, with scarce resources facing huge, insistent demands, there came a turn to a situation where the level of activity and the degree of progress depended more and more on the self-generating forces of the private markets. Decisions on utilization of capacity, types of goods to be produced, marketing methods—in large measure influenced by Government in recent years—were turned back to business management, which in turn was again guided by private demands.

In other words, the underlying change was from a period where the major question was—

how to obtain sufficient resources and how to allocate the limited resources in order to achieve a defined objective—

towards the more common situation which at a later date would be—

how to assure sufficient demand and balance to attain and keep full utilization of resources.

This did not mean that we would promptly enter into a buyers' market—the pent-up demands resulting from the war insured that for a time the economic situation would be dominated by production difficulties. In reconversion, we would still need to break bottlenecks.

The tasks involved in organizing production for different products, in obtaining a smooth flow of supplies, and in stocking distributors' shelves were time-consuming, to say the least. The limits to the existing demands were nonetheless more clearly defined than the insatiable ones of war; so that forward-looking businessmen recognized the shift which was the forerunner of the later renewal of the competitive struggle for markets.

### Little Change in Annual Aggregates

Despite the decline that took place in the latter half of 1945, the annual gross national product did not differ significantly from the 1944 total. The reasons for this were:

1. The aggregate output of goods and service during the first half of 1945 was at a higher rate than the average for 1944.

2. The impact of the reduction in munitions schedules after VE-day was relatively minor up to VJ-day. The Japanese surrender came before the unwinding of the war economy had proceeded very far. Thus, the major declines in the economy took place in the last 5 months of the year.

3. The impact of contract termination, though severe, was confined almost exclusively to the areas directly affected and did not spread to the rest of the economy.

### War Demands High in Early 1945

The early part of the year, as long as the two-front war was on, witnessed a further advance in gross national product to the highest point of the war period. The pressure of military procurement had increased under the stimulus of the temporary setback in the Ardennes at the end of 1944. There were heavy set-asides for the military and a concurrent tightening in some areas of civilian supplies. However, the increase in gross national product that took place during this period was probably as much due to price increases as to higher production.

As the impending victory over Germany came closer, there was some easing of the military pressure on the domestic economy. Reconversion measures, the first of which had come in 1944, were again placed on the agenda of the day.

### Initial Reconversion Steps

The initial reconversion steps were confined mainly to: (1) Preparing experimental models and new designs of civilian goods; (2) providing opportunity for obtaining machinery and machine supplies needed for the return to peacetime output; and (3) permitting more utilization of small quantities of scarce materials for limited output of civilian goods. The onset of VE-day merely speeded up these preliminary reconversion steps and provided for increased release of resources later on in the year.

The defeat of Japan, which followed closely the victory over the Germans, brought economic changes which completely overshadowed those of the earlier period. Decisive dismantling of the war production machine replaced the tentative steps taken after VE-day. Consequently new and much more extensive plans were made by business management to supplant outmoded steps in the direction of partial reconversion.

### Most Controls Abandoned

As significant as the radical changes in military procurement was the extensive reduction in Government controls over the economy. Although it was recognized that the joint upsurge in private demand for materials and parts to fill stock bins and start large-scale production might strain the supply of

some items, the shortages were considered to be of temporary nature. Furthermore, it was felt that progress would be facilitated by the removal of controls rather than by an attempt to tailor these to the new situation.

As quickly as possible, therefore, most wartime controls over manpower, production and distribution were lifted.

Special commodities where shortages were obviously serious, such as textiles, were kept in the control area, and the general regulations covering inventory hoarding were retained. It was necessary also, in the case of construction, to reimpose certain restrictions after the strict wartime controls had been lifted.

Similarly, at the first signs of easing civilian supplies, rationing was removed so that by the end of the year, stamps were needed only for the purchase of sugar. Some restrictions over transportation and foreign trade also remained, but these were being rapidly removed as pressures eased off.

Price controls were retained since it was obvious that with the existing ratio of production to purchasing power continuing restraint was necessary on the price level. At the same time, wage controls used throughout the war were lifted and the settlement of disputes returned to collective bargaining, to the extent that price ceilings were not endangered. Permissible wage advances affecting price setting were eased in the direction of allowing increases where

basic rates had not kept pace with the rising cost of living, where inequities needed redress, or where increases were deemed essential to obtain increased output of critical commodities.

### Post VJ-Day Downswing

The direct impact of the termination of military orders was immediate and severe in the segments primarily affected. Production, employment and income in the first weeks after the middle of August dropped rapidly.

Three features distinguished the decline that set in:

1. The swiftness of the impact. Although the full effect of the war's end had not been registered at the year end, the major declines in the affected areas took place from 6 to 8 weeks after VJ-day.

2. The selectivity of the decline. Where it hit, it necessarily hit hard, but it was limited mainly to the munitions production industries and the workers employed there. Other areas, particularly retail trade, showed large increases.

3. The absorption of released resources. Expansion in industries formerly hampered by short supplies and inadequate labor, the maintenance of relatively large activity in plants undergoing reconversion, reduction in average hours per week, and accumulation of inventories for resumed civilian production—all served to offset a large part of the recession.

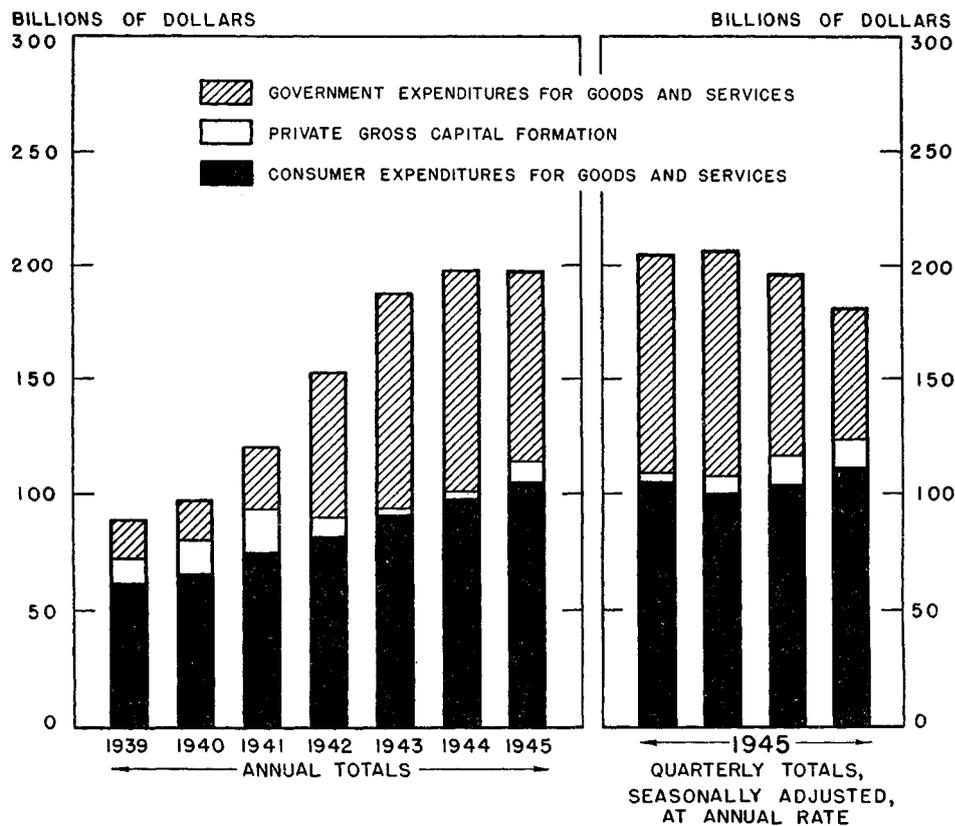
The highlights of these changes which also reflect the problems of the transition period are indicated in table 1.

The first four lines of the table, shown also in chart 1, depict the over-all changes that occurred during the year—the steep decline in Government expenditures and the partially compensating private expenditures. More than a third of the close to 40-billion-dollar drop in Government outlays was counteracted by the rise in consumer expenditures and private capital formation.

During the final third of the year reconversion progress was at a reasonably rapid rate. Plants were cleared of inventories and equipment, new production was organized, and raw materials and parts assembled. In this phase the output of finished goods naturally did not rise rapidly. Such increased flow of finished goods to consumers as actually did occur represented in the main a transfer of customers—the shift of output no longer wanted by the military. Gasoline is an outstanding example. But the really enlarged flow of such things as automobiles and other consumers durable goods could not be expected until 1946. The reasons for this were developed in the Business Situation of the November 1945 SURVEY.

The problems inherent in the developments of the last quarter and the period ahead are keynoted in the upper section of the table. Government expenditures for goods and services are scheduled to continue to move downward. The flow of producers and consumers goods will have to increase rapidly to halt the decline in total output resulting from these reductions in Government purchases of goods and services.

Chart 1.—Gross National Product



Source: U. S. Department of Commerce.

D.D. 46-20

February 1946

**Decline in Employment**

Nonagricultural employment fell by more than 3 million between the first and final quarters. The total figures cover up much larger changes of the components. As pointed out above, the increase of employment in former labor shortage fields, such as trade and services, and the spread of employment brought on by reduced weekly hours of work offset in part the sharp downswing of munitions employment.

In some areas—such as producers durable goods and construction—the shift to civilian output got under way fairly soon. In the former case the reconversion problem was relatively small because in large measure the goods produced for military use were similar to those needed for civilian production. In construction, however, the problem was more one of organization of output than of technology.

It is important to note also that in industries requiring extensive reconversion, employment did not fall so fast as shipments and production. Here a large part of the working force was maintained to clear out plants, rearrange plant layout, recondition machinery, and start production of parts and subassemblies.

Nevertheless, the aggregate decline in employment and the additional releases from the armed forces spelled added pressure on the labor market. Though appreciable numbers left the labor force, and many returning veterans delayed their reentry into the job market, unemployment was on the increase in the late months of the year. Employment in civilian goods production will have to climb considerably above war levels to offset the added release of veterans and war workers in the months ahead.

**Adjustments in Manufacturing**

The major impact of the first stage of the transition period is shown in the third section of the table. By the fourth quarter of the year the dollar value of manufacturing shipments was back to the mid-1942 level.

Employment was cut by 25 percent between the first and fourth quarters, despite reduced hours of work. Further evidence of the changing situation is the fact that employment in manufacturing in relation to total nonagricultural employment fell from 40 percent in the first quarter to 33 percent in the last quarter—about the same as in 1941. As could be expected, the major incidence occurred in durable goods manufacture, although some nondurables like chemicals dropped a substantial proportion of their workers as their war contracts were cancelled.

With the decline in employment and in the wages of those employed because of reduction in hours and changes in occupation—at a time when the cost of living was maintained—a widespread move was initiated to raise the general wage level. With the wartime restraints modified, this led to a widening area of industrial disputes which had not been settled at the year-end.

Notwithstanding that the wage disputes in the major industries had not been settled, and that the initial postwar pattern had not been evolved, there was

**Table 1.—Selected Business Indicators**

Item	1945	
	First quarter	Fourth quarter
Gross national product (billions of dollars) <sup>1</sup> .....	204.5	182.8
Government expenditures.....	95.6	57.7
Consumer expenditures.....	105.0	110.9
Private capital formation.....	3.9	14.2
Employment, monthly avg. (millions):		
Employees in nonagricultural establishments <sup>2</sup> .....	38.5	35.2
Armed forces.....	11.9	10.1
Manufacturing activity (monthly average):		
Shipments (1939=100).....	276	202
Durable.....	377	201
Nondurable.....	206	203
Employment (1939=100) <sup>2</sup> .....	162	121
Durable.....	218	136
Nondurable.....	117	110
Average weekly earnings (dollars).....	47.42	340.97
Durable.....	53.35	344.19
Nondurable.....	38.77	337.83
Average weekly hours.....	45.4	341.5
Durable.....	46.8	341.6
Nondurable.....	43.4	341.5
Retail trade (1935-39=100) <sup>3</sup> .....	193	210

<sup>1</sup> Seasonally adjusted data at annual rates.

<sup>2</sup> Seasonally adjusted.

<sup>3</sup> Average for October and November.

Sources: Gross national product and manufacturers' shipments, U. S. Department of Commerce; other data, U. S. Department of Labor.

a general tendency for rates to advance. In the major unsettled disputes, wage increases had been offered but agreement had not been reached as to the size of such increases.

In his message to Congress the President presented estimates that more than 20 percent of all employees in private nonagricultural establishments had received wage increases between August 18, 1945, and mid-January 1946. The amounts of increase granted concentrate between 10 and 15 percent, but range from less than 5 percent to over 30 percent.

**Sustaining Forces**

The last line of table 1 is especially revealing of one of the forces that tended to offset the deflationary forces. The sizable increase in retail trade is much more a reflection of consumers' willingness and ability to spend than of increased supplies, although civilian supplies in some lines became more plentiful, as military set-asides decreased. Nevertheless, sales did hold up the national production.

This dollar volume of spending reflected a number of influences. Among them was the fact that the income actually received by consumers in the aggregate did not promptly reflect the large decline in the total national product, for reasons outlined in the following section where the national product and national income are reviewed.

The large transfer payments—represented by discharge benefits to veterans—provided current funds to many persons about to move into the civilian labor force in search of new employment.

In addition, persons displaced from manufacturing industries drew benefit payments from the substantial unemployment funds available for this purpose.

Moreover, the savings backlog of many consumers, plus the margin for increased consumer expenditures out of current income by merely reducing the rate of savings which prevailed during the war, augmented the spending potential. In general, business plans were made with a view to expansion stimulated by deferred demand, rather than contraction, and the general public seemed indisposed to quarrel with what was so generally apparent as the business view.

Evidence of the prevailing view was clear in the stock market. Refusal of the market to move lower, for more than a few days after the Japanese surrender, was accepted as the verdict for the immediate future, and the stock market averages were moved up 18 percent by the end of the year from the July averages. Conviction was widespread that in spite of the uncertainties ahead, good profits were in prospect and the needs for corporate funds for expansion could hardly prevent higher dividend payments.

**The Year-End Outlook**

By the end of the year, one question that had been paramount in the thinking prior to victory had been answered—and answered affirmatively. For it was shown that the shifts in the economy required by the sudden end of hostilities—in the cancellation of contracts, demobilization of workers and soldiers, realignment of production—could be accomplished without a drastic adjustment in prices, output, and employment, with a resultant downward shift in consumer demand.

Output did fall and employment was substantially reduced, but consumer demand rose rather than fell, and producers moved their plans ahead with confidence and speed so that the initial phase of reconversion, in the light of the problems involved, turned out to be a relatively orderly process.

The verdict of these few months is tentative—by no means can it be regarded as final. A major unresolved question confronted the economy as 1946 began. Could the necessary adjustments in costs and prices be worked out so that wages could be adjusted upward in the interest of compensating for some of the income lost and of meeting the longer-run requirement of sustaining consumption without a spiral of rising prices? Obviously such a price spiral would not only negate the advantages of the wage advances but might well lead to a repetition of the 1919-21 situation.

No solution had been evolved at the year-end, since industrial disputes were spreading and production was being delayed. Prompt settlement was essential in the interests of pushing reconversion ahead at a rapid rate, and a generally recognized fair settlement was equally requisite for the maximum cooperation and productivity necessary for a rapid step-up of output.

Provided these major issues are promptly settled, 1946 should be a period of rising output and employment in the private sector of the economy.

The aggregate output of goods and services is likely to be lower this year

than in 1945 even though with favorable circumstances, the rising output in the private sector may, at some time during the year, overtake the decline in Government expenditures still ahead.

Sufficient demand existed at the beginning of the year to assure a ready market for the output in the expanding lines—provided prices in general are restrained under the control mechanisms used through 1945. The insistent nature of this demand was the basic reason for continuation of price controls, since it was obvious that sellers could mark up goods very substantially and for some time. Existing demand would thereby be absorbed by price advances rather than production. Moreover, as the speculative tendencies gained momentum in such a climate, it became clear that the easy road of letting prices rise to what consumers were willing to pay offered no more of a solution to 1946 problems than a similar proposition would have offered in the war years.

In sum, the course of the transition to peace that confronts the economy this year will be determined by the successful expansion of the needed production and the restraints over the trend toward speculation that is geared only to temporary financial advantages.

The accomplishment of orderly reconversion and necessary readjustments in the transformation to a peace economy has a bearing not only on this year's business but also on that of the future. Since the accumulated demands though large are limited, economic adjustments made in the current year should be directed to maintaining the basis of a high-level production even after such demands are largely satisfied. With the opportunities at hand, this year's decisions regarding capacity expansion, new product development, and cost-price adjustments will have an important influence on the economy in the years ahead.

The significant aspect of this change was not that the inevitable decline took place, but that the drop was not any larger. By the end of the year a large part of military and economic demobilization had occurred without a sharp collapse of economic activity.

But the light thrown on the economic scene by national product and income statistics also showed that an important part of the readjustment is yet to come. It indicated furthermore that some of the factors which in the fourth quarter contributed to the high level of economic activity might be, at least in part, of temporary nature. Among such factors was the remarkable spurt in the dollar totals of retail sales, notwithstanding that goods had not yet begun to flow in substantially large volume.

In sum, it was evident that the pattern of production and income at the end of the year was very different from the one that could provide the basis of a sustained high level of postwar activity and that the factors necessary to assure such a development had hardly come into play.

**Gross National Product Declines**

Chart 1 depicts the movement of gross national product, which measures the total value of currently produced goods and services flowing to Government, to business for purposes of gross capital formation, and to consumers. This comprehensive index of economic activity declined by 23 billion dollars or from a peak annual rate of over 205 billion dollars in the first half of the year to an estimated 183 billions in the last quarter. A cut of almost 50 percent in war purchases, amounting to 40 billion dollars, was partly compensated by a 17 billion expansion in other expenditures. The latter were made chiefly by consumers for goods and services, and by business for plant and equipment and inventories.

The extent of the shift of production to civilian purposes is indicated by the fact that war expenditures fell from about 40 percent of total output in the first half of the year to less than 25 percent in the last quarter.

**Government Expenditures Cut**

Although this shift is of impressive proportions, it is by no means complete. War expenditures, at an annual rate of 43 billion dollars in the fourth quarter, continued far in excess of the amount to which they are expected to fall. Further cuts are in prospect in the procurement of munitions, in pay, travel, subsistence, and transportation and other services, which in the aggregate are comparable in importance to the reductions that have already been made. These cuts will result in a continuing rapid decline of war expenditures in the coming months.

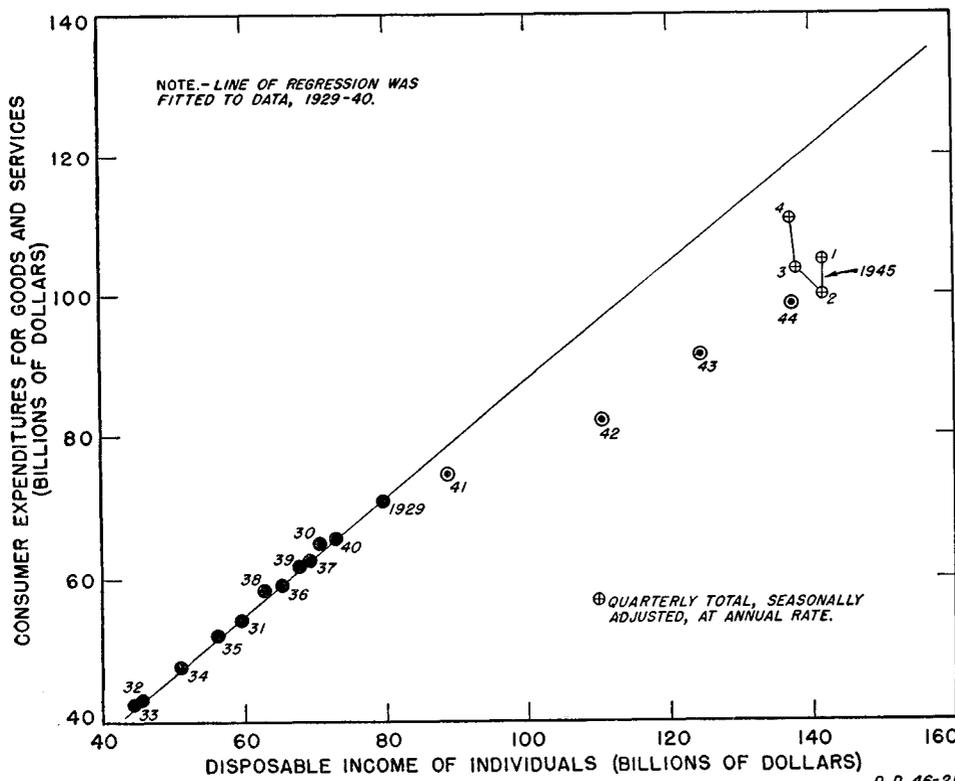
Even when account is taken of the prospective expansion of nonwar expenditures by the Federal Government and by State and local authorities, it is apparent that total Government spending in the last quarter of 1945 was nearly double the level which is expected when the full transition from war to peace has been achieved.

**National Income and National Product**

National product and national income in 1945, at 197 billion and 161 billion dollars, respectively, approximately duplicated in terms of current dollars the totals of 1944. But as indicated above this coincidence of the figures was the result of the decline in the latter half of 1945,

after the advance to the high point of the war in the initial half year. In the last quarter, economic activity as measured by the same indicators was at annual rates of 183 and 151 billion dollars, about one-tenth below the peaks reached prior to the end of the two-front war.

**Chart 2.—Relationship Between Total Consumer Expenditures for Goods and Services, and Disposable Income of Individuals**



Source: U. S. Department of Commerce.

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**Private Capital Outlays Rising Sharply**

In the second half of the year, private gross capital expenditures recovered sharply from the low volume to which they had been restricted by the requirements of the war program. The fourth quarter rate of 14 billion dollars represented a 9 billion increase over the annual rate which had prevailed in the first half of the year. These figures should not be taken as a measure of the extent to which our permanent capital structure is being added to at the present time. They include, in addition to private construction and purchases of machinery and equipment, changes in business inventories and in foreign investment.

An examination of the components of capital investment indicates that, in spite of this large increase, the major part of the recovery, upon which anticipations of postwar prosperity are based, has not yet occurred.

**Construction Rising**

Total private construction in 1945 was 2.7 billion dollars as compared with 1.6 billions in the previous year. Both residential and other construction shared in this expansion. Among nonresidential items the recovery in industrial and commercial construction was especially marked.

The revival of construction, noticeable after the end of the European war, gathered momentum after VJ-day. In the last quarter of the year, private construction activity, at seasonally adjusted annual rates, was proceeding at about 3½ billion dollars, or more than twice the rate which prevailed a year earlier. Although in percentage terms the recovery is rapid, the absolute volume of construction is still low.

**Producers Equipment Expenditures**

Purchases of producers' durable equipment were at an annual rate of 7 billion dollars in the last quarter of 1945, as compared with 5 billions in the first. Even though demand also continues to be far in excess of supply in this area of private capital outlays, the flow of output is more satisfactory than in private construction.

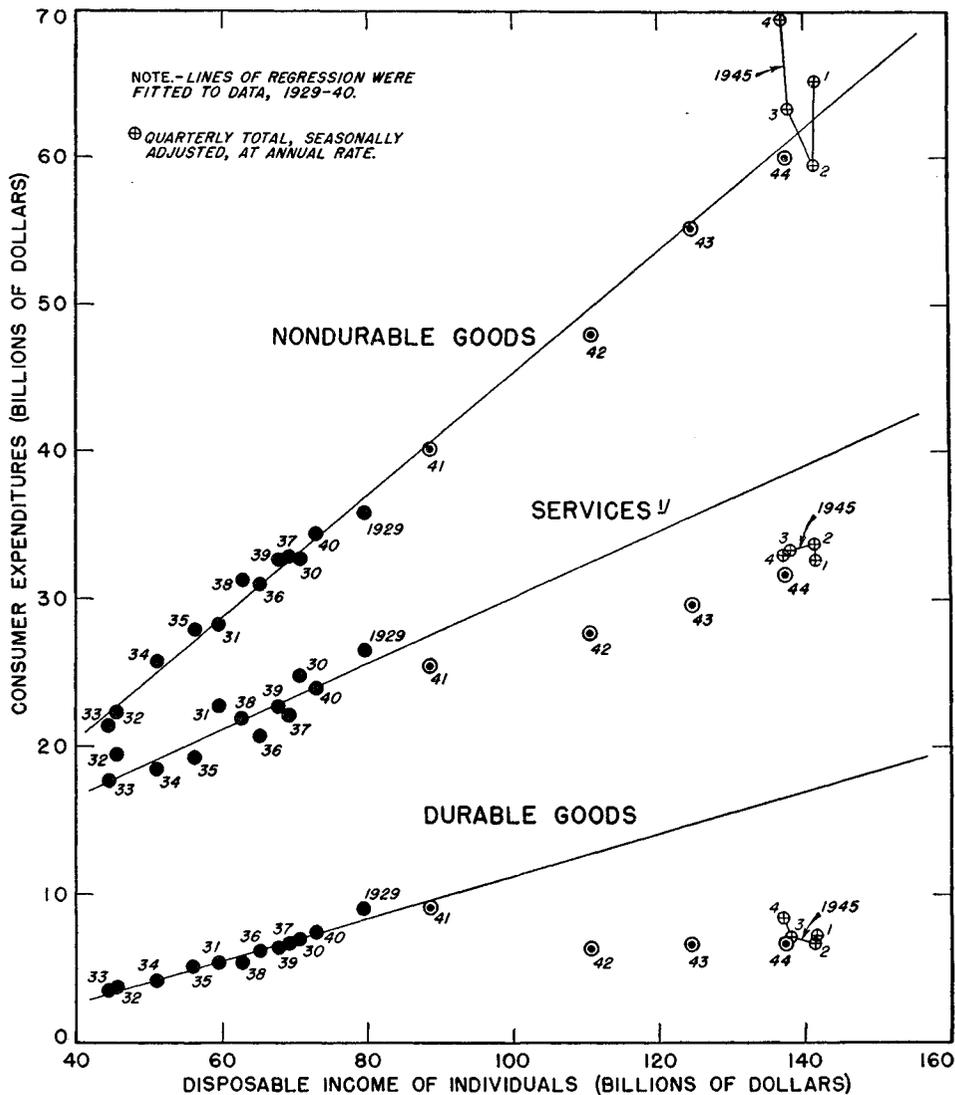
Many durable capital goods continued to be produced for Government use throughout the war, and no technical reconversion problem was involved in the shift to a peacetime economy.

**Shift to Inventory Accumulation**

The end of the war resulted also in a reversal of the movement of business inventories. Net liquidation, which had proceeded with minor interruptions since the middle of 1942, was halted in the third quarter and followed by net accumulation of 1½ billion dollars at annual rates in the fourth. The full increase in civilian type inventories and goods in process is not reflected in these figures, because they are net of the substantial liquidation of privately-held inventories for war production which occurred after VJ-day.

During the war retail and wholesale inventories fell to a minimum and manufacturers' stock of products for civilian

**Chart 3.—Relationship Between Major Groups of Consumer Expenditures, and Disposable Income of Individuals**



<sup>1</sup> Includes expenditures of military personnel in this country and abroad.  
Source: U. S. Department of Commerce.

use were also largely depleted, although total manufacturing inventories showed a net increase over the period as a whole.

Since VJ-day, the increase in business inventories has occurred in manufacturing and in wholesale trade; retailers drew upon stocks which they had accumulated in the first half of the year. Taking into account a small reduction in agricultural inventories, the net change in total business inventories for 1945 was negligible. It is apparent that the major phase of the postwar restocking movement is yet to come. In viewing the inflationary danger it is important that purchases for inventory be not overdone. Otherwise they may become, as after World War I, a source of instability and business loss.

**Shifts in Export Financing**

The international transactions of the United States are discussed in detail elsewhere in the issue. At this stage only certain salient facts that bear most closely on the flow of national production

will be summarized. Stated in a general manner, the net export of goods and services constitute a component of total production. Hence, to obtain a measure of national production, purchases by foreigners must be added to, and American purchases abroad must be deducted from the total of consumer and Government purchases and business purchases for domestic capital formation.

Net exports of goods and services in 1944 were a negative of 1.8 billion dollars; that is, United States purchases of goods and services abroad exceeded foreign purchases in the United States by that amount. This deficit continued in the first half of 1945. In the second half, however, a net surplus was realized, and the net balance for the year as a whole was positive.

This change has bearing upon the maintenance of economic activity after VJ-day. Though the precise movement of the figures is affected by special transactions, some of which are of an accounting nature, it is apparent that a

shift in the foreign balance is underway. This reflects mainly decreased Government purchases abroad and increased purchases by foreigners of the current output of American production.

The drop in Government expenditures abroad, which also forms a component of total Government expenditures in gross national product, explains why part of the decline of total war expenditures after VJ-day had no direct influence on domestic economic activity.

Increased purchases by foreigners on a cash or credit basis partially offset the drop of Government war expenditures that was due to the rapid decline of lend-lease procurement. By the end of the year lend-lease had been virtually eliminated and no further decline of war expenditures will occur on this score.

Foreign purchases in the United States, on the other hand, are increasing. Need for a wide range of American products is urgent, and as normal trade relations are gradually reestablished, and goods become available in increasing quantities, foreign demand will constitute a powerful impetus to American production if satisfactory financial arrangements can be made.

#### Consumer Expenditures Gain

Consumer expenditures for goods and services amounted to 105 billion dollars in 1945, a gain of 6 billions over 1944. Contrary to the movement of total production and incomes, these expenditures continued to increase in the second half of the year, and in the last quarter were at a record-breaking annual rate of 111 billion dollars.

A detailed account of the composition of consumer expenditures, as reflected in retail sales, is given elsewhere. The major facts are summarized in charts 2 and 3. This indicates that consumer durables, which continued to be either unavailable or in short supply, accounted for only a small part of the expansion, although on a percentage basis sales rose sharply. Similarly, expansion of consumer services was severely limited by the persistence of wartime shortages. The bulk of increased expenditures went for nondurable goods.

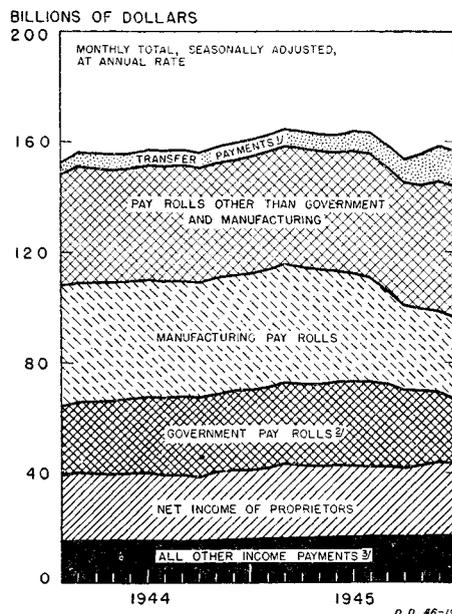
As consumers were not too discriminating, available supplies were absorbed. While the rise for both the year and the quarter reflect in part price increases and uptrading, there was also some advance in the quantities of certain types of goods.

#### 1946 Prospects

An analysis of the current position is essential for the evaluating the prospects for 1946. As can be seen from chart 3, post-VJ expenditures for nondurable goods were substantially higher in relation to disposable income than would have been expected on the basis of relationships which have held in the years 1929-1940, as summarized by the line of regression drawn in the chart.

The high ratio of nondurable goods expenditures to disposable income was due to several factors whose relative importance it is not possible to assess precisely. During the war the tendency to spend for nondurable goods and services some of the money which could no longer

Chart 4.—Income Payments to Individuals



<sup>1</sup> Represents public assistance and other relief, social insurance benefits, the Government's contribution to family allowances paid to dependents of enlisted military personnel, mustering-out payments to discharged servicemen, government retirement payments, redemption of adjusted service bonds (the Soldiers' Bonus), and veterans' pensions, compensation, and readjustment allowances.

<sup>2</sup> Includes pay of Federal, State, and local Government employees, and pay of the armed forces in this country and abroad.

<sup>3</sup> Includes dividends, interest, rents and royalties, and miscellaneous items.

Source: U. S. Department of Commerce.

be spent for durable goods was held in narrow check by the fact that the supply of many nondurables was also limited. After VJ-day, however, some of these goods became available in increasing quantities and consumer expenditures for them expanded without offsetting reduction in other lines.

The large number of servicemen returning to civilian life also raised consumer expenditures above their usual levels. It should be noted that money spent by these men reflects not only their recurrent needs but also special outlays which they have to incur in reestablishing themselves in civilian positions. Additional factors which contributed to the high level of consumer nondurable expenditures after the end of the war were the attenuation of the war bond campaign and a general desire on the part of the public to celebrate the first post-war holiday season.

At least some of these influences are of temporary nature and had reached their peak around the turn of the year. A lower level of nondurable goods expenditures in relation to disposable income would be the normal expectation for 1946. On the other hand, as brought out in chart 3, expenditures for durables and services are still abnormally low and, as a consequence, total consumer expenditures are also lower than they would be at current levels of income, if supplies were plentiful.

As durable goods and consumer services become available in increasing quan-

ties there will occur further shifts from saving to consumption which will more than offset any recession that may occur in nondurable expenditures. This demand, which by the end of the year had hardly begun to play a role, will provide an added support to employment and production.

#### The Flow of Income

While the movements of gross national product, national income, and income payments during 1945 were similar in direction, certain differences among them should be noted. The percentage drop from the first to the fourth quarter was much larger for the gross national product than for income payments—10 percent and 4 percent, respectively. The fact that income payments were maintained better than the other aggregates was particularly evident in the change from the third to the fourth quarter when income payments dropped by only 2 billions as compared with much larger drops in national income and gross national product.

These differences may be explained as follows: Gross national product measures the total value of national production at market prices, including the output of durable capital goods for replacement purposes. This total market value covers, in addition to incomes earned in production, business taxes and charges to depreciation and kindred reserves. National income, on the other hand, is defined as the sum of incomes earned in production and is measured net of these taxes and reserves. Accordingly, the fall in corporate profits before taxes which occurred in 1945 is fully reflected in the movement of national product, whereas national income reflects only the fall of profits after taxes, which was much smaller. Finally, income payments to individuals measure all current income received by individuals. They differ from national income by excluding incomes accruing to individuals but not received by them (undistributed profits and contributions to social insurance funds) and by including transfer payments to which no productive activity corresponds. Income payments fell less than either national product or national income partly because corporate dividend payments were maintained better than corporate profits. More important, however, was the expansion of transfer payments to which further reference will be made below.

#### Lower Taxes Cushion Decline in Profits

The significant features of the economic situation, revealed by a study of the income flow, are as follows. The reduction of war purchases had its most direct effect on corporate profits before taxes. Adequate information regarding these profits is lacking at this date, and the problem of estimating them is made more difficult by the numerous financial adjustments that resulted from the termination of the war. But on the basis of available preliminary data they are estimated at 22 billion dollars in 1945 as compared with 25 billions in 1944, not allowing for the recomputation of special

SURVEY OF CURRENT BUSINESS

Table 2.—Gross National Product or Expenditures: Seasonally Adjusted Quarterly Totals at Annual Rates<sup>1</sup>

(Billions of dollars)

Line	Item	1941				1942				1943				1944				1945			
		I	II	III	IV																
1	Gross national product or expenditure	110.4	113.9	123.4	133.0	137.8	146.3	158.7	166.5	179.4	186.0	191.5	193.1	195.4	197.2	198.1	199.8	204.5	206.3	195.7	182.8
2	Government expenditures for goods and services	21.3	23.2	27.5	34.1	41.9	57.4	70.6	81.0	88.0	94.7	95.8	96.0	98.3	99.0	94.7	96.6	95.6	99.2	79.5	57.7
3	Federal Government	13.4	15.3	19.6	26.2	34.3	50.0	63.3	73.7	80.6	87.3	88.3	88.4	90.7	91.4	87.0	88.8	87.8	91.3	71.6	49.8
4	War	7.6	10.2	14.6	20.9	29.7	44.1	58.2	69.2	76.0	83.1	82.8	83.3	85.2	86.2	81.0	82.5	82.2	85.3	65.2	43.3
5	Nonwar	5.8	5.1	5.1	5.3	4.6	5.9	5.1	4.4	4.6	4.2	5.6	5.2	5.5	5.1	5.9	6.3	5.6	6.0	6.4	6.5
6	State and local government	7.9	7.9	7.9	7.9	7.5	7.4	7.4	7.3	7.4	7.4	7.5	7.6	7.6	7.7	7.7	7.8	7.8	7.8	7.9	8.0
7	Output available for private use	89.1	90.7	95.9	98.9	95.9	88.8	88.1	85.6	91.5	91.3	95.6	97.1	97.0	98.2	103.4	103.3	108.9	107.1	116.2	125.1
8	Private gross capital formation	19.0	17.0	18.6	21.7	16.8	9.3	5.1	-8.8	2.2	1.2	3.4	3.2	.6	1.9	3.6	2.0	3.9	7.1	12.5	14.2
9	Construction	4.9	5.2	5.5	5.4	4.2	3.2	2.4	1.8	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.6	1.8	2.3	2.9	3.7
10	Producers' durable equipment <sup>2</sup>	9.1	9.6	8.1	9.0	7.1	5.9	4.3	3.1	2.8	2.8	3.2	3.6	3.6	4.0	4.4	4.0	5.2	6.1	7.0	7.2
11	Net change in business inventories	3.8	1.3	4.0	5.0	4.6	.5	-2.1	-5.0	-1.1	-1.4	.1	-1.1	-2.1	-1.0	-1.5	-2.3	-1.3	-2.2	2.2	1.6
12	Net exports of goods and services	1.0	.8	.7	2.1	.7	-.5	.4	-.8	-1.1	-1.7	-1.5	-1.9	-2.4	-2.7	-.9	-1.2	-1.7	-1.0	2.5	1.9
13	Net exports and monetary use of gold and silver	.2	.1	.3	.2	.2	.1	.1	(?)	(?)	(?)	(?)	(?)	(?)	(?)	-.1	(?)	-.1	-.1	-.1	-.1
14	Consumers' goods and services	70.1	73.7	77.3	77.2	79.1	79.6	83.0	86.4	89.2	90.0	92.2	93.8	96.4	96.4	99.8	101.3	105.0	100.0	103.7	110.9
15	Durable goods	8.6	9.7	9.7	8.3	6.7	6.0	6.1	6.5	6.4	6.6	6.6	6.6	6.6	6.4	6.8	7.1	7.2	6.7	7.1	8.4
16	Non-durable goods	36.7	38.9	42.0	42.8	45.6	45.9	48.7	51.4	54.0	53.8	55.5	57.0	58.8	58.3	60.9	61.8	65.2	59.5	63.3	69.5
17	Services <sup>4</sup>	24.8	25.2	25.5	26.2	26.8	27.6	28.1	28.5	28.8	29.6	30.0	30.3	31.0	31.6	32.1	32.4	32.6	33.7	33.3	33.0

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

<sup>2</sup> Less than \$50,000,000.

<sup>3</sup> Figures for 1945 are based on new sources and are not precisely comparable to prior years.

<sup>4</sup> Includes expenditures of military personnel abroad, in billions of dollars, as follows—1942: 0.1, 0.1, 0.2, 0.2, 1943: 0.3, 0.4, 0.4, 0.5, 1944: 0.7, 0.8, 0.8, 1.1, 1945: 0.9, 1.7, 0.8, 0.4.

Table 3.—National Income by Distributive Shares: Seasonally Adjusted Quarterly Totals at Annual Rates<sup>1</sup>

(Billions of dollars)

Line	Item	1941				1942				1943				1944				1945			
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Total national income	85.6	94.2	101.7	105.9	111.2	117.9	125.6	134.3	142.5	147.8	151.7	155.5	158.8	160.2	160.4	163.0	167.6	166.2	158.4	150.7
2	Total compensation of employees	57.4	62.5	67.3	70.6	75.0	80.6	86.8	94.0	100.6	104.6	108.3	111.8	114.2	115.4	116.7	117.7	119.6	118.3	113.0	105.7
3	Salaries and wages	53.7	58.7	63.7	67.0	71.5	77.3	83.6	90.8	97.4	101.4	105.1	108.5	111.0	112.2	113.5	114.5	116.4	115.1	110.0	102.7
4	Supplements	3.7	3.8	3.6	3.6	3.5	3.4	3.2	3.1	3.1	3.2	3.2	3.3	3.3	3.2	3.2	3.2	3.2	3.2	3.0	2.9
5	Net income of proprietors	13.6	15.3	16.9	17.6	19.2	20.0	20.9	22.2	23.1	23.7	23.5	23.6	24.3	24.2	23.3	24.5	26.3	25.8	25.1	26.0
6	Agricultural	5.0	6.0	6.8	7.3	8.5	9.3	9.9	11.0	11.7	12.2	11.9	11.7	12.2	12.0	11.1	11.8	13.3	13.2	12.2	12.1
7	Nonagricultural	8.6	9.3	10.0	10.3	10.7	10.7	11.0	11.1	11.4	11.5	11.6	11.9	12.1	12.2	12.3	12.7	13.0	12.6	12.9	13.9
8	Interest and net rents	7.7	7.9	8.1	8.3	8.5	8.7	8.9	9.2	9.4	9.6	9.8	10.1	10.4	10.6	10.6	10.9	11.4	11.7	11.9	12.2
9	Net corporate profits	6.9	8.4	9.3	9.4	8.4	8.5	9.0	9.0	9.5	9.9	10.0	10.0	9.9	10.1	9.7	9.9	10.4	10.4	8.4	6.8

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

Table 4.—Disposition of Income Payments: Seasonally Adjusted Quarterly Totals at Annual Rates<sup>1</sup>

(Billions of dollars)

Line	Item	1941				1942				1943				1944				1945			
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
1	Income payments to individuals	83.2	90.4	96.8	100.5	106.7	113.2	120.4	129.0	136.6	141.3	145.2	149.3	154.8	156.1	156.7	159.4	163.7	163.2	158.6	156.9
2	Less: Personal taxes and nontax payments	4.0	4.0	4.0	4.0	6.7	6.7	6.7	6.7	15.1	15.5	21.8	21.9	19.4	19.4	19.3	19.7	22.1	21.7	20.6	19.7
3	Federal <sup>2</sup>	2.0	2.0	2.0	2.0	4.7	4.7	4.7	4.7	13.1	13.5	19.8	19.9	17.3	17.3	17.2	17.6	20.0	19.5	18.5	17.6
4	State and local	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1	2.1	2.1
5	Equals: Disposable income of individuals	79.2	86.4	92.8	96.5	100.1	106.5	113.7	122.3	121.5	125.8	123.4	127.5	135.5	136.7	137.4	139.7	141.7	141.6	138.0	137.3
6	Less: Consumer expenditures	70.1	73.7	77.3	77.2	79.1	79.6	83.0	86.4	89.2	90.0	92.2	93.8	96.4	96.4	99.8	101.3	105.0	100.0	103.7	110.9
7	Equals: Net savings of individuals	9.1	12.7	15.5	19.2	21.0	26.9	30.7	36.0	32.2	35.8	31.2	33.6	39.1	40.3	37.6	38.4	36.7	41.6	34.3	26.4

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

<sup>2</sup> Payments of individual income tax not withheld at source have been distributed equally over the 4 quarters of the calendar year.

Table 5.—Relation of Gross National Product to National Income: Quarterly<sup>1</sup>

(Billions of dollars)

Line	Item	1941					1942					1943					1944					1945				
		I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total
1	National income	21.0	23.3	25.3	27.3	96.9	26.6	28.9	31.7	35.0	122.2	34.8	36.7	37.9	40.0	149.4	38.9	39.6	40.2	41.9	160.7	40.9	41.3	39.8	39.0	161.0
2	Business tax and nontax liabilities	3.9	4.5	4.9	5.2	18.5	5.3	5.6	6.1	6.1	23.1	6.5	6.8	7.0	7.1	27.4	7.0	7.4	7.6	7.7	29.7	7.3	7.5	7.3	6.5	28.6
3	Depreciation and depletion charges	1.7	1.7	1.8	1.8	7.0	1.9	1.9	1.9	1.9	7.6	2.0	2.0	2.0	2.0	8.0	2.0	2.0	2.0	2.0	8.2	2.0	2.0	2.0	2.0	8.2
4	Other business reserves	.2	.2	.2	.2	.8	.2	.2	.2	.2	.6	.1	.1	.1	.1	.5	.1	.1	.1	.1	.5	.1	.1	.1	.1	.5
5	Capital outlay charged to current expense	.3	.3	.4	.4	1.3	.3	.3	.2	.2	1.1	.2	.2	.2	.2	.8	.2	.2	.2	.2	.9	.2	.2	.3	.3	1.1
6	Inventory revaluation adjustment	-.5	-.7	-.9	-1.1	-3.2	-.8	-.6	-.2	-.5	-2.1	-.1	(?)	-.1	(?)	-.2	(?)	-.1	(?)	(?)	-.1	(?)	(?)	(?)	(?)	(?)
7	Adjustment for discrepancies	-.6	.1	-1.2	.6	-1.1	-.9	.9	-.3	.1	-.2	-.3	1.1	1.2	-.6	1.5	-.2	(?)	-.9	-1.0	-2.2	-.8	.6	-.8	-1.0	-2.0
8	Gross national product or expenditure	26.0	29.4	30.4	34.4	120.2	32.5	37.2	39.6	43.0	152.3	43.3	46.9	48.3	48.8	187.4	48.0	49.3	49.3	51.0	197.6	49.8	51.8	48.7	47.0	197.3

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

<sup>2</sup> Less than \$50,000,000.

SURVEY OF CURRENT BUSINESS

Table 6.—Gross National Product or Expenditure: Quarterly<sup>1</sup>

[Billions of dollars]

Line	Item	1941					1942					1943					1944					1945				
		I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total
1	Gross national product or expenditure	26.0	29.4	30.4	34.4	120.2	32.5	37.2	39.6	43.0	152.3	43.3	46.9	48.3	48.8	187.4	48.0	49.3	49.3	51.0	197.6	49.8	51.8	48.7	47.0	197.3
2	Government expenditures for goods and services	5.3	6.0	6.6	8.7	26.5	10.4	14.6	17.4	20.4	62.7	21.9	24.0	23.6	24.1	93.5	24.6	25.0	23.4	24.2	97.1	24.0	25.1	19.5	14.5	83.0
3	Federal Government	3.3	4.0	4.8	6.6	18.6	8.5	12.6	15.7	18.4	55.3	20.0	22.1	21.9	22.2	86.2	22.6	23.0	21.7	22.1	89.5	21.9	23.1	17.7	12.4	75.1
4	War	1.9	2.6	3.6	5.2	13.3	7.4	11.0	14.5	17.3	50.3	19.0	20.8	20.7	20.8	81.3	21.3	21.6	20.3	20.6	83.7	20.5	21.3	16.3	10.8	69.0
5	Nonwar	1.4	1.4	1.2	1.3	5.3	1.1	1.6	1.2	1.1	5.0	1.0	1.3	1.2	1.3	4.9	1.3	1.5	1.5	1.5	5.7	1.4	1.7	1.4	1.6	6.1
6	State and local government	2.0	2.1	1.7	2.1	7.9	1.9	1.9	1.7	1.9	7.4	1.9	1.9	1.6	2.0	7.4	2.0	2.0	1.7	2.0	7.7	2.0	2.0	1.7	2.1	7.9
7	Output available for private use	20.7	23.4	23.8	25.7	93.7	22.1	22.6	22.2	22.7	89.6	21.4	23.0	24.8	24.7	93.9	23.5	24.3	25.9	26.8	100.5	25.9	26.7	29.2	32.6	114.3
8	Private gross capital formation	4.2	4.8	4.8	5.3	19.1	3.6	2.7	1.6	-3	7.6	.5	.3	1.9	-2	2.5	.9	( <sup>2</sup> )	1.2	-1	2.0	1.2	1.6	3.5	3.1	9.4
9	Construction	1.0	1.3	1.6	1.3	5.3	.9	.8	.7	.5	2.9	.3	.4	.5	.4	1.6	.4	.4	.5	.4	1.6	.4	.6	.8	1.0	2.7
10	Residential	.5	.7	.9	.7	2.8	.4	.4	.2	.2	1.3	.1	.1	.2	.2	.6	.1	.1	.1	.1	.5	.1	.1	.2	.3	.8
11	Other	.5	.6	.7	.6	2.5	.5	.4	.4	.3	1.6	.2	.3	.3	.2	1.0	.2	.3	.3	.3	1.1	.3	.4	.5	.6	1.9
12	Producers' durable equipment <sup>3</sup>	2.3	2.4	2.0	2.2	8.9	1.8	1.5	1.1	.8	5.1	.7	.7	.8	.9	3.1	.9	1.0	1.1	1.0	4.0	1.3	1.5	1.8	1.8	6.4
13	Net changes in business inventories	.6	.8	1.0	1.2	3.5	.7	.4	-2	-1.4	-5	-3	-4	1.0	-1.0	-6	.2	-7	-1	-1.2	-1.7	( <sup>2</sup> )	-2	.4	-2	( <sup>2</sup> )
14	Net exports of goods and services	.3	.2	.2	.5	1.2	.2	-1	.1	-2	( <sup>2</sup> )	-3	-4	-4	-5	-1.5	-6	-7	-2	-3	-1.8	-4	-2	.6	.5	.4
15	Net exports and monetary use of gold and silver	.1	( <sup>2</sup> )	.1	.1	.2	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	.1	( <sup>2</sup> )	-1	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	( <sup>2</sup> )	-1								
16	Consumers' goods and services	16.5	18.6	19.0	20.4	74.6	18.5	20.0	20.6	22.9	82.0	20.9	22.7	22.8	24.9	91.3	22.6	24.2	24.7	26.9	98.5	24.7	25.0	25.7	29.5	104.9
17	Durable goods	1.9	2.6	2.2	2.3	9.1	1.4	1.5	1.4	1.9	6.3	1.3	1.7	1.6	2.0	6.6	1.4	1.6	1.6	2.1	6.7	1.5	1.7	1.7	2.5	7.4
18	Nondurable goods	8.4	9.7	10.4	11.5	40.1	10.4	11.5	12.1	13.9	47.9	12.3	13.6	13.8	15.4	55.1	13.4	14.7	15.1	16.7	60.0	15.0	14.9	15.7	18.8	64.4
19	Services <sup>4</sup>	6.2	6.3	6.4	6.5	25.4	6.7	6.9	7.0	7.1	27.8	7.3	7.4	7.4	7.5	29.7	7.8	7.9	8.0	8.1	31.8	8.2	8.4	8.3	8.2	33.1

<sup>1</sup> Detail will not necessarily add to totals because of rounding.

<sup>2</sup> Less than \$50,000,000.

<sup>3</sup> Figures for 1945 are based on new sources and are not precisely comparable to prior years.

<sup>4</sup> Includes expenditures of military personnel abroad as follows (in billions of dollars): Annual totals—1942, 0.1; 1943, 0.4; 1944, 0.8; 1945, 1.0; quarterly figures—1942 (last quarter), 0.1; 1943: 0.1, 0.1, 0.1, 0.1; 1944: 0.2, 0.2, 0.2, 0.3; 1945: 0.2, 0.4, 0.2, 0.1.

Table 7.—National Income by Distributive Shares: Quarterly<sup>1</sup>

[Billions of dollars]

Line	Item	1941					1942					1943					1944					1945				
		I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total
1	Total national income	21.0	23.3	25.3	27.3	96.9	26.6	28.9	31.7	35.0	122.2	34.8	36.7	37.9	40.0	149.4	38.9	39.6	40.2	41.9	160.7	40.9	41.3	39.8	39.0	161.0
2	Total compensation of employees	14.3	15.7	16.6	17.8	64.5	18.3	20.1	21.8	24.0	84.1	25.0	26.2	26.9	28.2	106.3	28.3	28.8	29.1	29.8	116.0	29.8	29.8	28.2	26.7	114.5
3	Salaries and wages	13.4	14.8	15.7	16.9	60.8	17.4	19.2	21.0	23.2	80.8	24.2	25.4	26.1	27.4	103.1	27.5	28.0	28.3	29.0	112.8	29.0	29.0	27.5	26.0	111.4
4	Supplements	1.0	1.0	.9	.9	3.7	.9	.8	.8	.8	3.3	.8	.8	.8	.8	3.2	.8	.8	.8	.8	3.2	.8	.8	.8	.8	3.1
5	Net income of proprietors	3.2	3.5	4.3	4.8	15.8	4.4	4.5	5.4	6.2	20.6	5.3	5.4	6.2	6.6	23.5	5.6	5.5	6.0	6.9	24.1	5.7	5.8	6.6	7.5	25.6
6	Agricultural	1.1	1.2	1.8	2.3	6.3	1.7	1.9	2.7	3.4	9.7	2.4	2.5	3.3	3.7	11.9	2.6	2.5	3.0	3.7	11.8	2.5	2.6	3.4	4.1	12.1
7	Nonagricultural	2.1	2.3	2.5	2.6	9.6	2.7	2.7	2.7	2.8	10.9	2.9	2.9	3.0	3.0	11.6	3.0	3.0	3.1	3.2	12.3	3.2	3.2	3.2	3.5	13.5
8	Interest and net rents	1.8	2.1	2.0	2.1	8.0	2.0	2.3	2.1	2.4	8.8	2.2	2.6	2.3	2.6	9.7	2.5	2.8	2.6	2.7	10.6	2.9	3.1	2.8	3.0	11.8
9	Net corporate profits	1.6	2.0	2.4	2.5	8.5	1.9	2.1	2.3	2.4	8.7	2.3	2.5	2.5	2.6	9.8	2.5	2.5	2.4	2.5	9.9	2.6	2.6	2.1	1.7	9.0
10	Dividends	.9	1.0	1.0	1.6	4.5	.9	1.0	1.0	1.4	4.3	.9	1.0	1.0	1.4	4.3	.9	1.1	1.0	1.5	4.5	1.0	1.1	1.0	1.5	4.5
11	Savings	.7	1.0	1.4	1.0	4.0	1.0	1.1	1.3	1.0	4.4	1.4	1.5	1.5	1.1	5.5	1.5	1.5	1.4	1.0	5.4	1.6	1.5	1.1	.2	4.5

<sup>1</sup> Detail does not necessarily add to totals because of rounding.

Table 8.—Disposition of National Income: Quarterly<sup>1</sup>

[Billions of dollars]

Line	Item	1941					1942					1943					1944					1945				
		I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total	I	II	III	IV	Total
1	National income	21.0	23.3	25.3	27.3	96.9	26.6	28.9	31.7	35.0	122.2	34.8	36.7	37.9	40.0	149.4	38.9	39.6	40.2	41.9	160.7	40.9	41.3	39.8	39.0	161.0
2	Add: Transfer payments	.7	.6	.6	.6	2.5	.7	.6	.6	.7	2.7	.7	.8	.8	.9	3.2	1.2	1.3	1.3	1.4	5.3	1.5	1.7	1.9	3.0	8.1
3	Less: Corporate savings	.7	.0	1.4	1.0	4.0	1.0	1.1	1.3	1.0	4.4	1.4	1.5	1.5	1.1	5.5	1.5	1.5	1.4	1.0	5.4	1.6	1.5	1.1	.2	4.5
4	Contributions to social insurance funds	.6	.6	.7	.7	2.6	.7	.8	.8	.8	3.2	.9	1.0	1.0	1.0	3.8	1.0	1.0	1.0	1.0	3.9	1.0	1.0	.9	.9	3.8
5	Equals: Income payments to individuals	20.3	22.3	23.8	26.3	92.7	25.6	27.7	30.2	33.8	117.3	33.2	35.0	36.2	38.7	143.1	37.7	38.5	39.2	41.3	156.8	39.8	40.4	39.7	40.9	160.7
6	Less: Personal taxes and nontax payments	1.4	1.0	.7	1.0	4.0	2.5	1.6	1.2	1.3	6.7	3.9	3.9	5.0	5.7	18.6	5.7	5.8	4.3	3.6	19.4	8.7	4.9	3.8	3.7	21.0
7	Federal	.8	.5	.4	.4	2.0	2.0	1.0	1.0	.7	4.7	3.3	3.4	4.7	5.1	16.6	5.1	5.2	4.0	3.0	17.4	8.1	4.3	3.5	3.0	18.9
8	State and local	.5	.5	.3	.6	2.0	.5	.5	.3	.6	2.0	.5	.6	.3	.6	2.0	.6	.6	.3	.6	2.1	.6	.6	.3	.6	2.1
9	Equals: Disposable income of individuals	19.0	21.3	23.2	25.3	88.7	23.1	26.2	28.9	32.5	110.6	29.3	31.1	31.2	33.0	124.6	32.0	32.8	34.8	37.7	137.4	31.1	35.5	35.9	37.2	139.7
10	Less: Consumer expenditures	16.5	18.6	19.0	20.4	74.6	18.5	20.0	20.6	22.9	82.0	20.9	22.7	22.8	24.9	91.3	22.6	24.2	24.7	26.9	98.5	24.7	25.0	25.7	29.5	104.9
11	Equals: Net savings of individuals	2.4	2.7	4.2	4.9	14.2	4.5	6.2	8.4	9.5	28.6	8.4	8.4	8.3	8.1	33.3	9.4	8.5	10.1	10.8	38.9	6.4	10.5	10.2	7.7	34.9

<sup>1</sup> Detail will not necessarily add to totals because of rounding. Wage payments retroactive to 1943 amounting to 0.2 billion dollars were made to railroad workers under agreements reached in January 1944. These are included in national income for 1943, but in income payments for 1944.

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amortization in the last quarter of the year.

The reduction in manufacturing profits was somewhat larger, but was partly compensated by expansion in most other lines. About two-thirds of the 3 billion reduction of profits was offset, however, by a smaller corporate tax bill, so that corporate profits after taxes declined only from 10 to 9 billions. Their 1945 level exceeds all previous years with the exception of 1943 and 1944.

Owing to two temporary factors, corporate profits reacted somewhat more sharply to the end of the war than would be expected if cut-backs in production were the sole influence. First, heavy reconversion expenditures were charged to current cost in the last quarter, resulting in a temporary abnormal reduction of profits. While no tangible production corresponds to these expenditures, they did create income and employment; in fact, they constitute a partial explanation of the fact that employment after VJ-day was more nearly maintained than production, as measured by gross national product.

The second factor accounting for a temporary reduction in profits stems from the fact that an unusually large proportion of production represented an increase of goods in process. These items are valued at cost and no profit margin is realized on them prior to their sale.

#### Wages and Salaries

Wages and salaries are the only other major component of the income flow which contracted with the end of the war. Total pay rolls amounted to 110 billion dollars in 1945 as compared with 112 billions in 1944. A 3 billion cut in private industry pay rolls of 84 billions was partly offset by a one billion increase in the 28 billion pay roll of Federal, State, and local governments.

Within the private sector, manufacturing and nonmanufacturing—each of which accounted for roughly one-half of the total private pay roll in 1944—moved in opposite directions. Manufacturing pay rolls declined by 6 billion dollars, but other private pay rolls offset one-half of this loss.

The changes that occurred during 1945 exhibit the transition from war to peace more clearly than the annual totals. (See chart 4.) Total pay rolls declined from an annual rate of 115 billion dollars in January to 101 billion in December. Of this drop, 8 billion was in private industry pay rolls, and 6 billion in the Government. Within the private sector the decline was confined to manufacturing and concentrated in the durable goods industries. Manufacturing pay rolls fell by 13 billion dollars between January and December. More than three-fifth of this cut occurred immediately after VJ-day; in the last quarter of the year manufacturing pay rolls were stable.

Private pay rolls other than manufacturing showed little change in the first half of the year but expanded thereafter, and at the end of the year exceeded their January level by approximately 5 billions. The increase occurred mainly in trade, service and construction; transportation,

mining, and agricultural pay rolls were relatively stable.

#### Last Quarter Expansion in Pay Rolls

As a result of these divergent movements, the shrinkage of private industry pay rolls which had been in evidence since the end of the European war, and had been accelerated after VJ-day, was halted in October. In the last quarter these pay rolls expanded month to month. The internal shifts are summarized by the fact that manufacturing pay rolls constituted about 50 percent of the total in January, but less than 40 percent in December. This proportion is very similar to the one which prevailed in 1940 and 1941.

#### Reduction in Hourly Earnings

Statistics on employment, weekly hours, and average hourly earnings throw further light on the factors which contributed to the contraction of manufacturing pay rolls in 1945. These pay rolls dropped by about one-third from January to October. The bulk of the drop occurred in durable goods industries where total pay rolls were halved. A cut in employment to 62 percent of the January level accounted for more than two-thirds of the drop in durable manufacturing pay rolls; the remainder resulted from a 17-percent reduction in weekly earnings. A shorter workweek was a more important factor in reducing weekly take-home pay than were lower hourly earnings.

#### Contraction of Government Pay Rolls

Both military and Federal civilian pay rolls contributed to the 6 billion dollar reduction in Government pay rolls which occurred between January and December. On the other hand, State and local government pay rolls increased. Further sharp reductions in military pay rolls will occur as demobilization proceeds. Federal civilian rolls will also be cut back throughout 1946.

#### Proprietors' Incomes High

Net incomes of both farm and nonfarm proprietors rose by approximately 7 percent from 1944 to 1945. The two most important reasons for the advance of agricultural incomes were the continued rise of farmers' selling prices and the comparative stability of total production expenses. In the nonagricultural sector most industries registered increases, the gain in retail trade being most pronounced. Much of this gain was made in the last quarter of the year, when retail sales soared.

#### Expansion of Transfer Payments

Transfer payments to individuals expanded sharply after VJ-day reflecting,

for the most part, increased mustering-out pay to discharged soldiers and unemployment compensation. These two items more than offset the reduction in Government allowances to soldiers' dependents. Largely because of them total transfer payments in December were at an annual rate of almost 13 billion dollars, more than double the rate prevailing at the beginning of the year.

This flow of money to consumers contributed significantly to purchasing power after VJ-day. Military transfer payments have reached their peak. Even though significant expansion will occur in certain categories, such as pensions and unemployment and education benefits to veterans, the total will decline with increasing momentum in 1946.

The movement of the major components of income payments which has been reviewed, resulted in a drop of income payments after VJ-day. Excluding transfers, income payments, stabilized in October and November; the expansion in the private sector was offset by declines in the Government. Total income payments actually increased in these two months, owing to the fact that transfer payments grew at a 2 billion dollar annual rate.

December income payments registered a contraction. In that month transfer payments failed to expand further and the increase in private income payments was not sufficient to offset a sharp reduction of military pay rolls.

#### Individual Savings Declining

Of the 161 billion dollars of income payments taxes absorbed 21 billions consumer expenditures claimed 105 billion and the remaining amount, or about 35 billions, was set aside in savings. The volume of individual savings for the year as a whole exceeded all previous records with the exception of 1944.

In the first half of the year, the high ratio of savings to disposable income which had become established during the war—about 30 percent—was approximately maintained. In the second half, however, this ratio dropped, and in the last quarter it was down to 20 percent. This was still in excess, however, of what might be expected on the basis of normal prewar relationships. The shift from saving is the counterpart of increased consumer expenditures and its significance has been discussed in connection with the review of these expenditures.

Because of the methods used to finance the war individuals have accumulated an unprecedented amount of savings a large part of which is in the form of currency deposits, and Government securities. The influence of these accumulations on the postwar economic situation is commented on in the final section of this review.

## The Labor Market

The structural changes in the economy, discussed above, had their most marked reaction in the labor market. The year began with a situation which became necessary as the productive forces of the economy moved from war to peace. The year began with a situation marked reaction in the labor market. Shifts and adjustments on a wide scale where above-normal utilization of

our manpower resources was required to meet production requirements and the continuing heavy demands for military personnel. With the end of the war, as military production programs were eliminated and as large numbers of veterans were released to the civilian labor market, the labor situation changed radically. Unemployment reappeared even though there were still many unfilled jobs in particular areas and occupations at the end of the year.

Meantime, and underlying this fundamental change in the character of the labor market, large shifts in the disposition of labor resources occurred. Employment in major segments of the economy—the so-called war industries comprising principally the metalworking plant of the Nation—dropped precipitously following the fall of Japan.

At the same time other segments—notably construction and trade where activity had necessarily been held down during the war years—began to expand their demands on the labor force. By the year-end the major readjustments in the labor market incident upon reconversion were accomplished, though further declines were to be expected in the Government and war-production segments.

Two interrelated problems then faced the economy: How soon would an ade-

quate solution be found for the widespread industrial disputes which had arisen in this period? How rapidly could the civilian sector of the economy expand so as to absorb the sharp increase of workers who were returning from the armed services to restore their normal mode of living?

**Major Shifts in the Use of Labor**

The principal shifts in employment are depicted in chart 5. Total nonagricultural employment continued at a high level throughout the first half of the year, though it was moving slowly downward and was below the wartime peak of 1943. With the capitulation of Japan, however, there was a sharp break and between August and September the number of nonagricultural employees dropped by more than 1½ million.

After a slight further decline in October, the total tended slightly upward as reconversion began to absorb more workers and trade took on additional forces—in part, at least, for the usual seasonal expansion. At the end of the year, non-agricultural employees totaled 36.1 million, about 1 million less than at the war's end and some 3½ million under the wartime peak.

Within this part of the labor force, the shifts were of very considerable magnitude and importance. The major area

of decline was, of course, the so-called "munitions" industries, where, between August and December, employment dropped about 2.2 million, with one worker out of every four dislodged.

The shipbuilding and repair yards, however, dropped one out of every two of their workers; the aircraft industry dropped three out of four. In these industries some additional decreases—accompanying the further liquidation of war production—are in prospect. The major large-scale lay-offs were, however, finished by the end of the year.

**Reconversion Re-employment**

Some offset to these declines was becoming evident by the year-end in other industries classified in the "munitions" group during the war period. The automobile industry, for example, where employment dropped sharply immediately following VJ-day began to reabsorb workers as the work preparatory to resuming full-scale production got under way. The year-end picture, however, was clouded by the General Motors strike which began in November and by the threat that the impending steel strike would, if prolonged, seriously curtail basic supplies.

In the machinery and heavy-equipment industries with relatively few reconversion problems there were similar clear evidences of an upward trend. The importance of a quick recovery in these industries derives in large part from the necessity of providing new equipment to speed the reconversion of other industries.

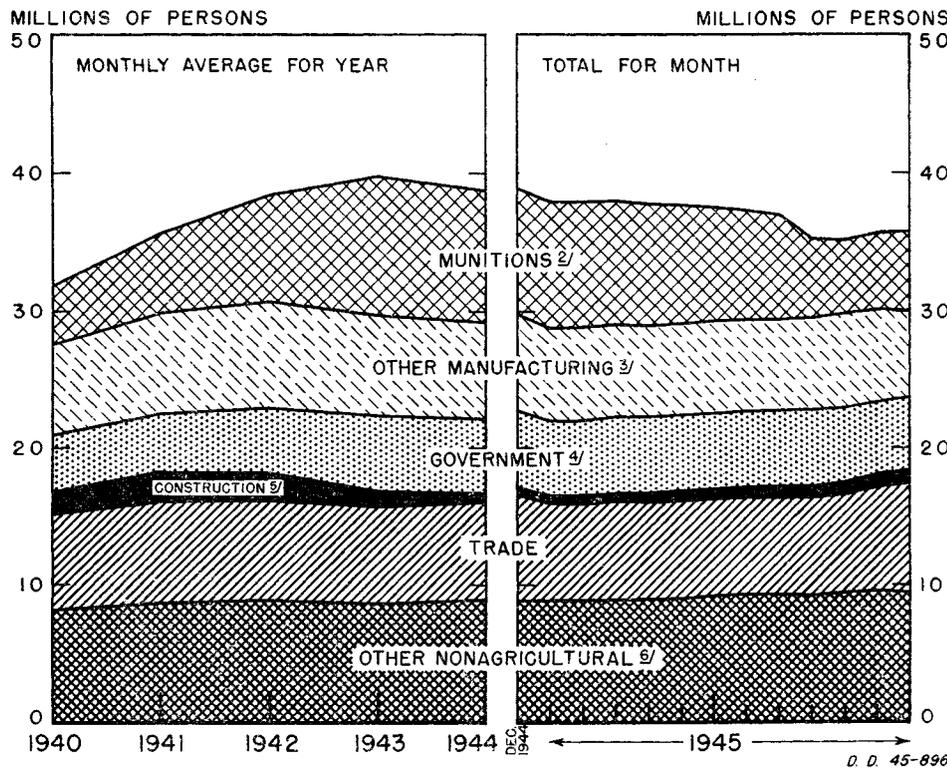
**Areas of Expanding Employment**

The manufacturing industries which did not have wartime priorities, and non-manufacturing industries generally, derived almost immediate benefits from the easing of the labor market caused by the decline of munitions employment and the release of veterans. As work opportunities lessened, lower wage rates, which had been a particular impediment to recruitment of labor for many of these industries, also became of less importance.

The rise in employment in these two major groups of industries following VJ-day amounted to about a quarter of a million between mid-August and mid-December. However, some of these industries—notably textiles—are still experiencing difficulty in securing workers since there is continued reluctance to accept the lower wage scales which obtain in many plants.

Trade and construction provided the major offset to the drop in war employment. Construction employment rose steadily from its low point at the beginning of the year and in December had almost double the number of workers of a year ago. Trade increased its employed force by 1 million workers between mid-August and mid-December. Though December is characteristically a peak month, the number of workers employed this December was almost 400,000 higher than a year ago and exceeds by about 250,000 the number so employed in any December since 1941.

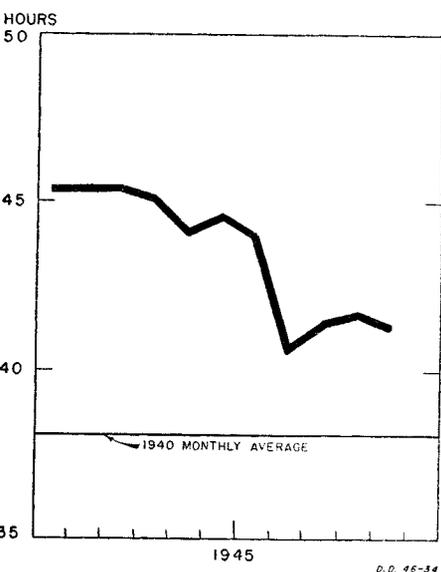
**Chart 5.—Distribution of Nonagricultural Employment <sup>1</sup>**



<sup>1</sup> Includes all full-time and part-time workers in nonagricultural establishments who are employed during the pay period ending nearest the 15th of the month. Proprietors, self-employed persons, domestic servants, and personnel of the armed forces are not included.  
<sup>2</sup> Includes all metal-using industries, the rubber industry, selected chemical industries, and Government-operated navy yards and manufacturing arsenals.  
<sup>3</sup> Represents total manufacturing less the munitions industries.  
<sup>4</sup> Includes Federal, State, and local Government. Government-operated navy yards and manufacturing arsenals, and Federal force-account construction are excluded.  
<sup>5</sup> Includes Federal force-account construction and contract construction.  
<sup>6</sup> Includes mining, transportation and public utilities, finance, service, and miscellaneous.  
 Source: U. S. Department of Labor.

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**Chart 6.—Average Hours Worked Per Week in Manufacturing Industries**



Source: U. S. Department of Labor.

retain substantial forces during this period without an undue financial burden.

**Drop in Hours of Work**

A factor in sustaining employment which was generally anticipated was the overall reduction in hours of work. (See chart 6.) Through the first 4 months of the year average hours of work in manufacturing had remained above 45 per week. They moved slightly lower in the second quarter of the year, then dropped to 42 and 41 hours per week. The August drop was influenced by the holidays declared when Japan capitulated.

It is apparent from this chart that the 40-hour week has not yet been restored. An average of 41 or 42 hours means an average scheduled work-week of 43 or 44 hours. Thus, there was still an appreciable amount of overtime and premium pay in wage payments.

**Wage Problems Mount**

To the extent that hours of work per wage earner did decline, this was an important element in the mounting wage disputes which developed as one of the problems facing the economy at the year-end. As noted earlier with the cost of living continuing high, the reduction in weekly earnings—caused by drop in hours, reduction in premium payments, and shifts in jobs—meant a corresponding loss of purchasing power.

In recognition of this the President—hard upon the capitulation of Japan—announced a shift from the war-wage policy back to collective bargaining, retaining however the objective of price

stability. Immediate negotiations were undertaken in most of the major industries, and numerous disputes were promptly settled. However, by the year-end the issues had not been resolved in many of the major industries and the basic pattern of settlement remained to be worked out.

The motors strike involved the largest single group of workers, but it was overshadowed in immediate significance to the economy by the threat of a steel strike shortly after the advent of the new year. Such a work stoppage, if prolonged, would have widespread repercussions throughout the economy. Hence, the search for a prompt solution was intensified.

With these conflicts providing a threat to increased production, the President in December called for legislation establishing a fact-finding procedure under which strikes would be postponed for 30 days while a board would determine—on the basis of all relevant data—the essential facts which could provide the basis for reaching agreements. Up until the year-end the Congress had not acted on the proposal, though presidential boards were set up to consider the motors and steel cases.

In the last month of the year approximately, 7.5 million man-days of work were lost because of strikes (see chart 7). Except for October when the coal strike was in effect this represents the greatest loss of man-days caused by strikes in any month since records were first compiled in 1927.

**Major Shifts Accomplished**

Thus, by the year-end the industrial labor market appeared in large part to have weathered the initial shock occasioned by the Government's swift moves to withdraw from its position as industry's principal customer. Aggregate nonagricultural employment was tending to rise slightly and most of the major shifts in the disposition of the civilian labor force had been made.

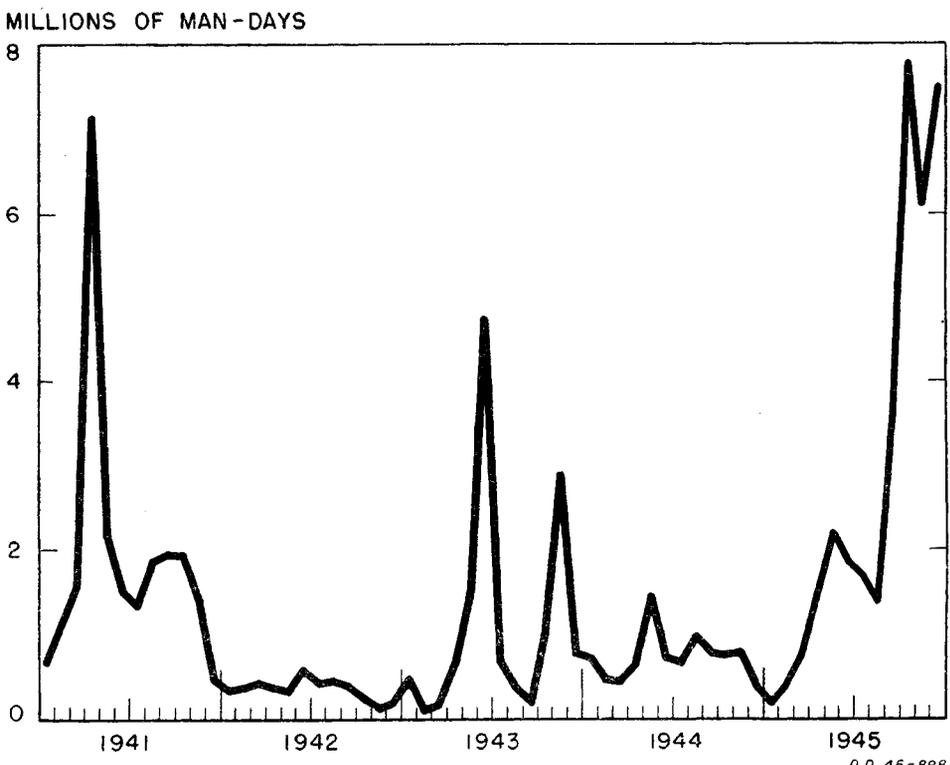
These adjustments were not accomplished without some friction. Many communities which had been wholly or in large part on war work were faced with immediate and widespread unemployment and many individual workers had to make difficult readjustments in the transition from war to peace employment. In general, however, the period following VJ-day was characterized by appreciably less transitional unemployment than had been feared.

**Forces Bolstering Employment**

A number of factors helped to sustain the demand for labor in this period. Some of these had been anticipated—particularly the renewed demand for labor by construction and trade and by the nondurable industries which had been operating with reduced forces during the war years.

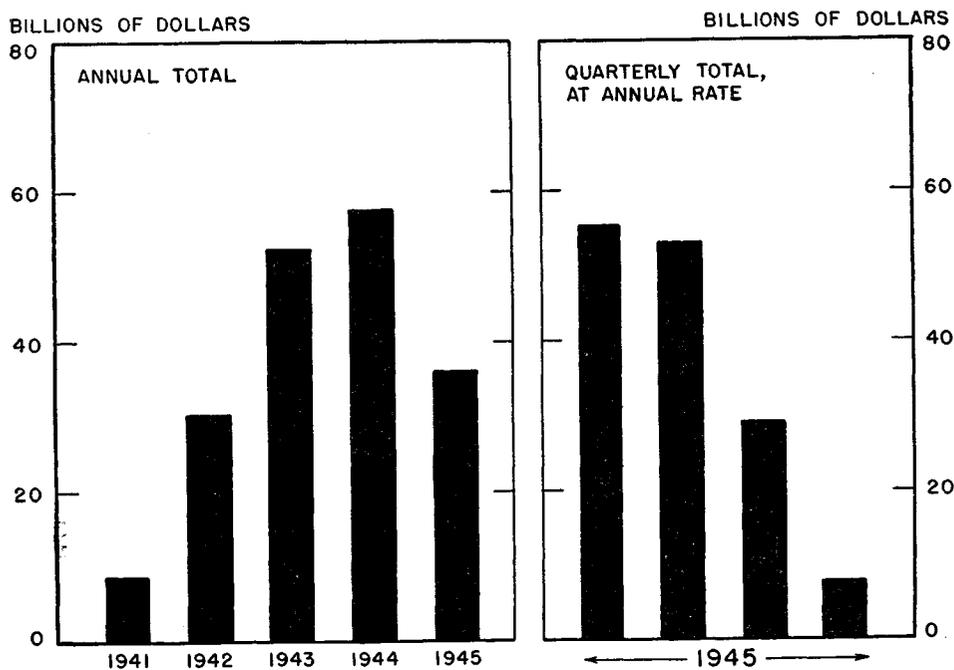
Others, however, had not been so generally foreseen. Employment in the reconverting industries, for example, did not recede to the extent suggested by canceled war orders, as more workers than had been estimated were kept on to clear the plants, install the machinery or resumption of civilian production, make plant alterations, and build up stocks of materials and parts. The provisions of contract termination agreements and the reserves set up for reconversion activity enabled employers to

**Chart 7.—Strikes and Lockouts: Man-Days Idle During the Month**



Source: U. S. Department of Labor.

Chart 8.—Munitions Production<sup>1</sup>  
(Based Upon 1945 Prices)



<sup>1</sup> Data are actual production, except for the fourth quarter of 1945 which are scheduled production as of October 1, 1945.

Source: Civilian Production Administration (formerly War Production Board).

### Employment Prospects

The other emergent labor market problem at the year end was developing as a result of the rapid release of veterans in progress and in prospect. By the end of the year veterans were coming out of the military forces at a rate of well over 1 million a month—with some 5 million released in the final quarter of 1945 alone. An additional 4 million were scheduled to be released by June of 1946.

The full impact of the additions to the labor force arising from military releases had not made itself felt by the end of the year. In large part this resulted from the fact that many servicemen when released delayed temporarily their entrance into the civilian labor force in order to rest, re-establish households, and accomplish the necessary readjustment incident upon the return to civilian life.

Thus there is some lag in their appearance upon the civilian labor market in numbers commensurate with the number returned to civilian life. However, by December the gap was closing and the number of new members of the labor force in the age group 20 to 44 was increased markedly. Even more sharp in-

creases can be expected as we advance into 1946.

The number of unemployed that will result from this large influx of veterans will in part be offset by withdrawals from the labor market of the so-called abnormal entries. Already there are indications that many veterans' wives are leaving the labor market. However, to a greater extent their effect upon the unemployment picture will depend upon the increase in job opportunities that occurs. As indicated above there has already been an upturn in nonagricultural employment. It is to be doubted, however, that the rise in the immediate future can be large enough to absorb the increasing number of veterans who will be seeking work.

As an indicator, by early January over 2 million workers were claiming unemployment compensation. When the veterans claiming readjustment benefits—about 650,000 in early January—are added to the claims under the insurance system, we had as we entered 1946 some 2¾ million persons claiming unemployment compensation. This indicates the rising number of unemployed despite the fact that there are still unfilled work opportunities.

### Manufacturing Output

Manufacturing output during 1945 was characterized by three phases—pressure upon the factories following the Belgium-bulge attack at the end of 1944 to supply a huge flow of munitions in the first quarter, the initial falling

off when Germany was very evidently beaten, and the much sharper drop consequent upon the final and unconditional surrender of the Japanese which brought with it the general change over to the production of peacetime goods.

### Sharp Munitions Decline After VJ-Day

The ending of the war was immediately followed by an avalanche of war contract cancellations which resulted in a sharp curtailment of munitions production. As chart 8 shows, munitions production in the first quarter of the year was not far below the quarterly rate of 1944, notwithstanding the condition to which our major enemies had been reduced at that time. In that initial quarter munitions production was at an annual rate of 55 billion dollars (1945 standard prices) as compared with about 58 billion dollars in 1944. With victory in Europe on May 8, output declined. As a result the second quarter total was off 4 percent from the first quarter.

The continued high rate of munitions output was indicative of the cautious curtailment of military takings until the Japanese surrender. The quick capitulation of a thoroughly beaten Japan, however, resulted in a precipitous drop in the third-quarter munitions production, followed by an even more drastic cut in the final quarter of the year. Munitions output dropped 85 percent from the second quarter to the fourth and was reduced even further by the end of the year. Sharpest cuts occurred in the production of aircraft and ammunition which was reduced to 3 percent of the second-quarter rate.

Total munitions production did not decline further because of continued work on ships already under construction and ship repair work. This category declined by about 60 percent.

### Total Manufacturing Output Drops

The liquidation of war production was immediately reflected in a downturn of total manufacturing output. The value of manufacturers' shipments dropped by about one-fifth from July to October. However, despite the sharp cuts in war production and its adverse effect on many manufacturing industries the decline in manufacturing output was of short duration.

Strong demands by both producers and consumers for civilian goods resulted in a bottoming-out of the production movement in the last quarter of the year. Shipments showed little change between October and November but there was a 4 percent decline in December. Shipments continued to be bolstered in this period by the liquidation of war contracts and the transfer of materials and semifinished products.

Table 9.—Manufacturers' Shipments

Year	[Billion of dollars]		
	Total, all industries	Durable goods industries	Nondurable goods industries
1939	56.9	23.3	33.6
1940	65.8	29.6	36.2
1941	93.4	46.2	47.2
1942	121.3	64.9	56.4
1943	148.7	86.3	62.4
1944	156.1	89.2	66.9
1945 <sup>1</sup>	140.0	71.1	68.9

<sup>1</sup> Preliminary.

Source: U. S. Department of Commerce.

Table 10.—Manufacturers' Shipments for War Use

[Billions of dollars]

Industrial group	1941		1942		1943		1944		First half 1945 <sup>1</sup>	
	Total	War portion	Total	War portion						
Total, all industries.....	93.4	15.4	121.3	61.4	148.7	92.6	156.1	95.8	159.6	94.5
Durable goods industries.....	46.2	12.0	64.9	49.0	86.3	71.4	89.2	71.8	88.4	66.9
Nondurable goods industries.....	47.2	3.4	56.4	12.4	62.4	21.2	66.9	24.0	71.2	27.6
<b>DURABLE GOODS INDUSTRIES</b>										
Iron and steel and their products.....	13.1	3.9	15.3	11.8	16.5	13.5	16.5	13.6	18.2	14.6
Nonferrous metals and their products.....	4.6	1.8	5.5	3.9	6.7	5.4	7.2	5.6	7.7	5.7
Machinery (including electrical).....	10.3	3.1	15.5	11.7	20.7	16.8	22.2	16.6	22.6	15.4
Automobiles and equipment.....	6.9	1.7	6.9	6.0	10.9	10.1	12.2	10.9	12.2	10.3
Transportation equipment (excluding automobiles).....	4.3	1.5	13.6	13.1	22.7	22.0	22.2	21.7	18.1	17.2
All other durable goods.....	7.0	1.0	8.1	2.5	8.8	3.6	8.9	3.4	9.6	3.7
<b>NONDURABLE GOODS INDUSTRIES</b>										
Food and kindred products.....	14.3	.6	18.8	2.6	20.6	5.2	22.7	6.5	23.3	7.5
Textile-mill products.....	6.3	.6	7.8	2.2	8.1	2.9	7.6	2.1	7.7	2.7
Paper and allied products.....	3.1	.3	3.1	.6	3.4	1.0	3.6	1.4	3.7	1.7
Leather and leather products.....	1.9	.1	2.4	.4	2.3	.5	2.4	.5	2.5	.5
Chemicals and allied products, products of petroleum and coal and rubber products.....	11.2	1.5	12.3	5.3	14.8	9.0	16.2	10.1	17.5	11.1
All other nondurable goods.....	10.4	.3	12.0	1.3	13.2	2.6	14.4	3.4	16.5	4.1

<sup>1</sup> At annual rate.

Source: U. S. Department of Commerce.

Chart 10 shows that manufacturers' shipments rose very rapidly during the war period, reaching an annual rate at the end of 1944 of almost three times the 1939 total. The decline since VJ-day reduced the fourth quarter rate to about double 1939. Total shipments including those between manufacturers amounted to 140 billion dollars in 1945 compared with 156 billion in 1944 and 57 billion in 1939.

These comparisons are of course affected by the higher prices of 1945. A rough adjustment for price change indicates that the physical quantity of output in the fourth quarter of 1945 was still more than half again as large as the 1939 quarterly rate but had fallen below the 1942 rate. The chart also clearly indicates the rising trend of physical output<sup>1</sup> during the war years, leveling off during the fourth quarter of 1944 and the first quarter of 1945 and declining sharply after VJ-day.

Only a rough measure of physical quantity of output can be obtained in this period when many of the products were changed drastically or eliminated entirely from production. The constant dollar index shown on the chart was obtained by adjusting the value of shipments destined for war purposes, using a munitions price index constructed by WPB, and the nonwar portion of the shipments using the all commodity, other than farm products, wholesale price index. The likelihood is that the price increases were actually more than indicated by the index, and hence the rise in manufacturing shipments in constant dollars was not so steep as here indicated. Moreover, the increase of subcontracting practices during the war years

<sup>1</sup> Shipments and production differ by the change in finished goods inventories. Since these have been relatively stable over the entire period, the trend in shipments is approximately equal to that of production.

would tend to inflate sales, since the latter include inter-company shipments.

As was to be expected, the liquidation of war production was felt most directly by those durable goods manufacturing industries producing heavily for war. From July to October the daily average shipments of these industries dropped by more than one-third. Output of the nondurable goods industries, on the other hand, was little affected by the war pro-

duction cuts—seasonally adjusted shipments of these industries declined only 5 percent after VJ-day.

**New Orders for Durable Goods Cut**

The contrasting effect of the war's ending on the two major groups of industries is strikingly brought out by comparing their trends of new orders. New business placed with durable goods producers dropped sharply in August with some of the industries recording cancellations in excess of new orders received. Although the volume of incoming business increased after the initial cuts in war orders, the net value of new orders placed with firms (excluding those classified in the transportation equipment group) in November was almost one-third below the average for the first half of the year.

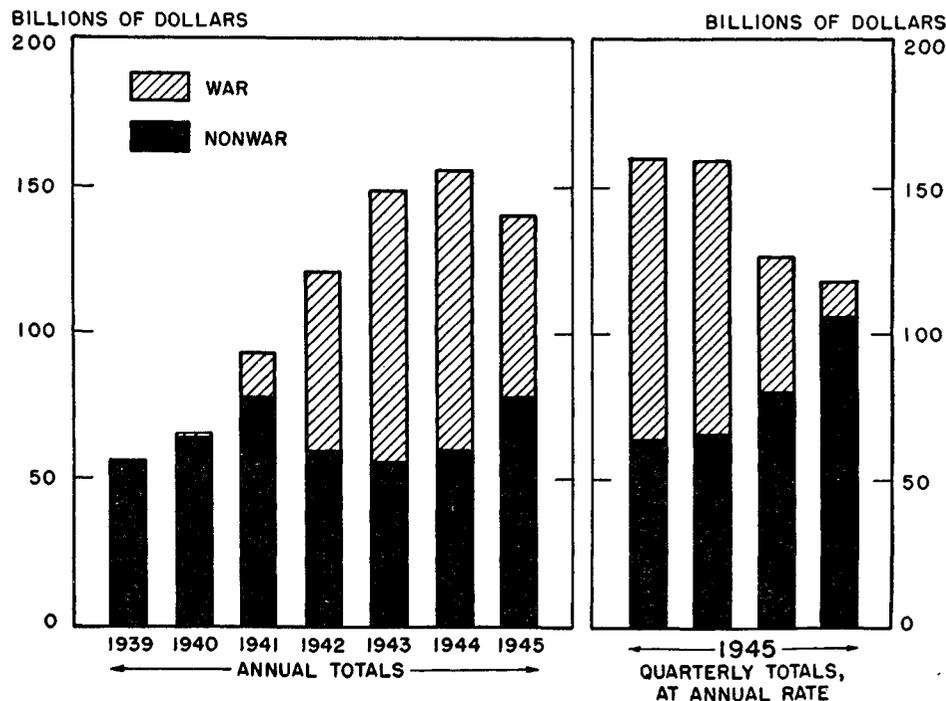
Continued heavy demands for nondurable manufactures by civilians and only moderate curtailment of food and clothing requirements of the armed forces were reflected in the relative stability of new orders to and shipments by the nondurable goods industries.

**Post VJ-Day Rise in Nonwar Production**

Following VJ-day, production shifted from predominantly war to nonwar goods. Chart 9 indicates the production changes over the war period and the speed of the post VJ-day shift to civilian output. The proportion of shipments destined for war use to total shipments increased from 17 percent in 1941 to a peak of about 60 percent in the last quarter of 1944.

The ending of the war was soon followed by the elimination of most limi-

Chart 9.—Manufacturers' Shipments, War and Nonwar<sup>1</sup>



<sup>1</sup> Data for the last quarter of 1945 include preliminary estimates for December.

Source: U. S. Department of Commerce.

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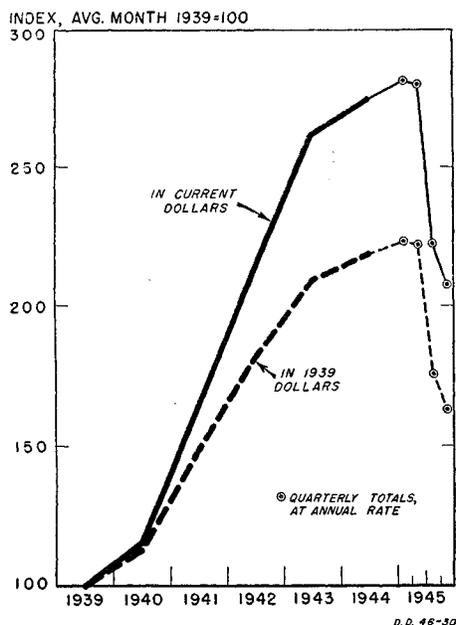
tation and priority orders, as well as other production controls which had channelled the flow of materials into war and essential civilian uses. Controls were kept on only a few products such as some textiles and paper where military takings were still heavy or supplies were relatively short.

With most resources thus freed from controls manufacturers were able to shift the flow of materials from war to civilian use. Consequently, since VJ-day the nonwar portion of shipments has been increasing steadily—from 40 percent during the second quarter to 65 and 90 percent in the third and fourth quarters, respectively.

While this chart indicates an increase of 60 percent in the nonwar goods from the second to the fourth quarter of the year, it is well to be clear that this represented in the main a shift in customers rather than an increase in output. There was no substantial increase in the output of finished goods to consumers during this period. The rapid shift to nonwar shipments reflects the fact that many goods were quickly reassigned or adapted to nonwar use. For example, a large part of steel output before VJ-day was allocated for war use, whereas after VJ-day most of the output was for the production of civilian goods. This increased flow of steel for civilian use, however, did not result in any significant increase in the output of consumer goods during the second half of the year. Rather manufacturers of consumer durables such as automobiles, refrigerators and washing machines had to reconvert and fill the pipelines before they could produce the goods.

Table 10 presents estimates of the war and nonwar portions of manufacturers'

**Chart 10.—Manufacturers' Shipments in Current and 1939 Dollars<sup>1</sup>**



<sup>1</sup>Data for the last quarter of 1945 include preliminary estimates for December.

Source: U. S. Department of Commerce.

shipments by industries for the years from 1941 to 1944 and for the first half of 1945. These are based on information collected from Government agencies and nongovernmental sources which served as a guide in determining the portion of the total output destined for war use, including lend-lease and other exports.

Although in certain industries the estimates are admittedly very rough and the dividing line between what was for war and nonwar use is not clear, sufficient information was available on basic industries to give a fairly reliable picture of manufacturing output for war. The estimates by industries indicate the areas of manufacturing where the bulk of the change-over from war to peace occurred.

Manufacturing industries had varying degrees of reconversion problems and difficulties. For many industries, such as food and textiles, the goods produced for war were also usable after VJ-day with little or no adaptation for civilian purposes. Such industries had few if any reconversion problems and except for possible changes in the specifications of the products kept on producing essentially the same goods after VJ-day. In the case of other industries, such as metal producing, reconversion problems existed but were of a minor nature requiring little time to readapt the facilities and products to nonwar use. In some industries, on the other hand, including the important transportation equipment group, the reconversion problems were difficult and required actual physical change-over of plant and equipment. In these cases the plants had to be cleared of war equipment and new equipment installed, nonusable war inventories had to be disposed of, and the pipelines for civilian production had to be filled.

Despite these difficulties, the actual physical reconversion—changing over plants and facilities—was virtually completed by the end of the year. The accompanying increase in the shipments of producers' durable goods in the last quarter of the year has already been noted.

However, the output of finished consumer goods by the converted plants was still small towards the end of the year since much time was needed in organizing the production lines, and assembling the materials. For example, production of passenger cars during the year amounted to only 83,700 units, while production of refrigerators in November was only about 40 percent of the prewar rate. Production of radios was also low with smaller radio sets reaching distributors, but large console models not yet reaching the showrooms by the year end.

#### Industry Trends Since VJ-Day

Chart 11 shows the trend in shipments from July to October 1945 by twenty major industries. The percentage changes are based on daily average shipments, seasonally adjusted for those industries still affected by seasonal factors. It may be noted that only the paper, the printing and publishing, and the apparel industries recorded increased shipments from July to October.

As expected, the industries showing the largest declines were the war industries.

Shipments by the transportation equipment industries in October were three-fifths below their July volume; machinery and nonferrous metals industries declined by about one-third; iron and steel and petroleum industries by one-fifth and the others by less than that amount.

It must be remembered that the firms in the industries are classified according to their peacetime products and that during the war the output of many was entirely different. Thus the fact that the firms in the rubber products industry reduced their shipments does not necessarily mean reduced shipments of rubber products but rather of the munitions which they were producing. In fact, shipments of rubber products increased substantially in this period.

#### Inventories Increase Since VJ-Day

Victory was followed by diverse trends in the inventory movement by industries. Those most affected by the war contract cancellations reduced their stocks of raw materials and goods in process. This was necessary, first, to bring the inventories down—in line with the reduced rate of output—and second, to clear the plants of nonusable war inventories.

It is estimated that on VJ-day manufacturers held war inventories of raw materials and goods in process amounting to about 7 billion dollars. Of this amount, approximately 4.5 billion dollars were held by durable goods manufacturers. Most of the nondurable goods inventories were usable for peacetime production but a large proportion of the durable goods war inventories was removed from the plants and turned back to the Government. No information is available on the actual amount of war stocks thus liquidated since VJ-day.

During the last 6 months of 1945, durable goods manufacturers reduced their inventory holdings by more than 500 million dollars. Since there was some replenishing of stocks preparatory to peacetime production, the liquidation of war inventories must have exceeded one-half billion dollars.

Nondurable goods manufacturers, on

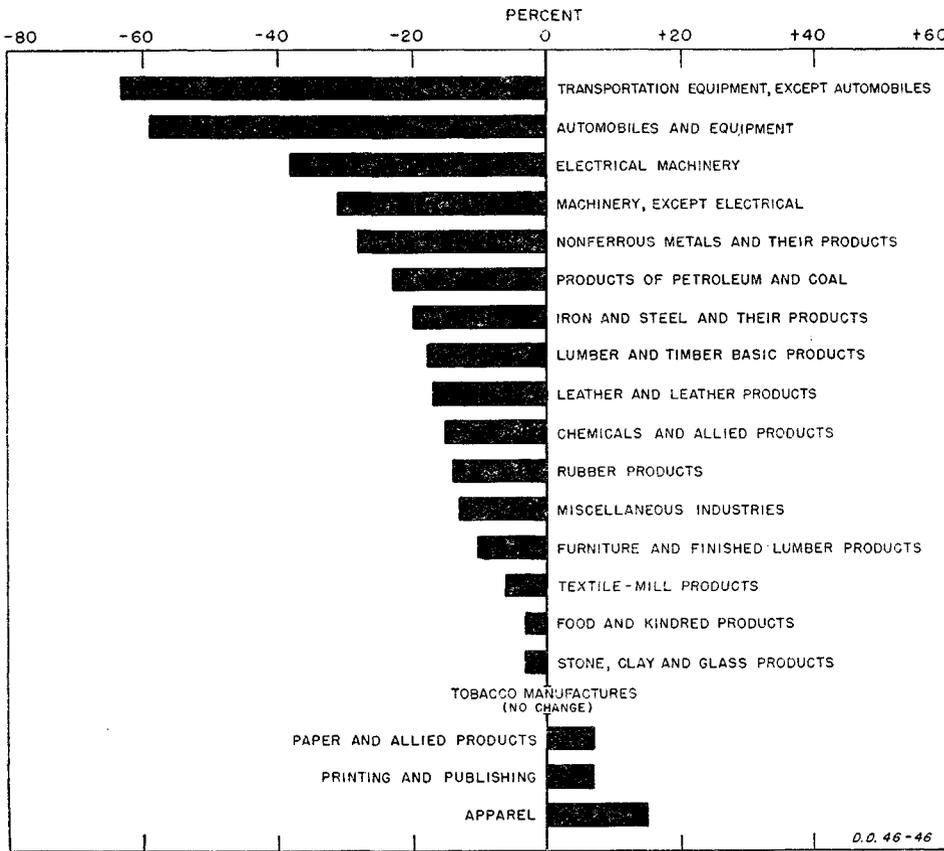
**Table 11.—Manufacturers' Inventories by Stages of Fabrication, End of Month**

	[Billions of dollars]				
	1939, Dec.	1941, Dec.	1944, Dec.	1945	
				July	Dec. <sup>1</sup>
Total inventories:					
All manufacturing industries...	10.7	15.7	16.7	16.3	16.6
Durable-goods industries...	5.1	8.1	8.9	8.7	7.9
Non-durable-goods industries...	5.6	7.6	7.8	7.6	8.7
Finished goods inventories:					
All manufacturing industries...	4.3	4.7	4.7	4.5	4.9
Durable-goods industries...	1.9	1.9	2.0	2.0	2.0
Non-durable-goods industries...	2.4	2.8	2.7	2.5	2.9
Raw materials and goods in process:					
All manufacturing industries...	6.4	11.0	12.0	11.8	11.7
Durable-goods industries...	3.2	6.2	6.9	6.7	6.0
Non-durable-goods industries...	3.2	4.8	5.1	5.1	5.7

<sup>1</sup> Preliminary.

Source: U. S. Department of Commerce.

**Chart II.—Percentage Change in Manufacturers' Shipments Between July and October 1945<sup>1</sup>**



<sup>1</sup>The basic data for July and October 1945 shipments for each industrial group are adjusted for differences in the number of working days in the month. Further adjustments were made for those industries which are still affected by seasonal movements.  
Source: U. S. Department of Commerce.

the other hand, increased their inventory holdings by about 1 billion dollars after VJ-day, more than half of which consisted of raw materials and goods in process inventories. Part of this accumulation was necessary to fill the pipelines for peacetime production. There was also a sizable increase in the stocks of finished goods inventories, with one

quarter of the total occurring in the textile industry.

The total value of manufacturers' inventories at the end of the year amounted to 16.6 billion dollars, about equal to the value at the beginning of the year. This level, however, was less than the normal ratio to shipments on the basis of the prewar inventory-sales relationship.

### Agricultural Production

Agricultural output turned downward last year for the first time since 1938. The decline, however, was small—4 percent—and the combined volume of crop production and livestock marketings in 1945 was the second largest in history.

As shown in table 12, the over-all index of agricultural production, which rose to a peak of 136 in 1944 (1935-39=100), declined to 130 in 1945. While several major products reached record volume, these gains were more than offset by sharp reductions in a few categories, notably livestock marketings and cotton production.

In 1945, as in previous war years, food output was adequate to supply large non-civilian needs and to provide for a rate of civilian consumption higher than in prewar years. In addition rationing and

price control, together with increased purchasing power of low-income groups, brought about improved food distribution. Thus, although the per capita supply of a few foods was reduced during the war, in the main the "shortages" grew out of swollen wartime demand.

#### Effect of War's End Not Immediate

Although the ending of the war will necessarily produce changes in agricultural production and income, such changes were not evident in the course of developments last year, since the flow of products from the Nation's farms was determined primarily by steps taken several months to more than a year previous to the Japanese surrender. In fact, only minor production changes have been programmed by the Department of Ag-

riculture in the goals announced for 1946.

There was some decline in marketings in the autumn of 1945—as mirrored in chart 12 showing the seasonally adjusted trend in cash income—but this resulted from delay in harvesting because of bad weather. Marketings on a seasonally adjusted basis rose in the final months of the year. Farm prices showed a similar movement, easing in the summer and then rising to new peaks at the year end.

#### Pork Production Lower

The most important decrease in food output in 1945 occurred in the meat supply which was down 9 percent from 1944 because of sharply reduced hog slaughter. Beef production, on the other hand, reached another new high, even though the number of cattle on farms was only slightly reduced from the peak number at the beginning of 1944.

Egg production declined somewhat from the record of the preceding year owing to less favorable feed-egg price ratios at hatching time a year earlier. In contrast, a very favorable ratio between feed costs and the price of milk—resulting from the dairy feed subsidy payments which were increased during 1945—brought about a record milk flow for the year.

#### Factors Aiding Production

The various elements which contributed to the rapid expansion of agricultural production during the previous war years continued to be important in 1945. Further gains were made in mechanization—typified by the addition of another 125,000 tractors on farms—in fertilizer consumption, and in the use of lime and cover crops.

Taking the year as a whole, the weather was generally favorable, although heavy rains interfered with planting and later with harvesting operations and unseasonal frosts reduced yields of a few crops. Farm employment, which declined very little during the war despite the rather sharp drop in farm population, averaged slightly lower in 1945 than in the previous year. Employment was maintained by drawing

**Table 12.—Volume of Agricultural Production**

Type of product	Index (1935-39=100)					
	1940	1941	1942	1943	1944	1945 <sup>1</sup>
Total agricultural production <sup>2</sup> .....	110	113	124	128	136	130
Total food production.....	111	115	125	132	138	135
Total food crops <sup>3</sup> .....	109	116	124	116	129	130
Food grains.....	110	131	139	116	148	155
Truck crops.....	111	116	129	124	135	143
Fruits and tree nuts.....	110	113	117	107	123	115
Vegetables (excluding truck crops).....	101	100	104	125	106	109
Sugar crops.....	104	97	110	81	82	93
Total food livestock.....	112	115	126	138	141	136
Meat animals.....	118	118	132	150	155	141
Poultry and poultry products.....	109	116	131	152	153	153
Dairy products.....	105	110	114	113	116	120

<sup>1</sup> Preliminary.

<sup>2</sup> Data for crops are on a crop-year basis; data for live stock relate to calendar years. The total includes non food crops.

<sup>3</sup> Includes peanuts in addition to other crops.

Source: U. S. Department of Agriculture.

upon family workers who normally would not be in the labor force.

Analysis of the principal factors responsible for the wartime rise in agricultural output indicates strongly that these influences may operate to push output even higher in the postwar years, although the rate of increase will be slowed.

#### Prices Continue Favorable

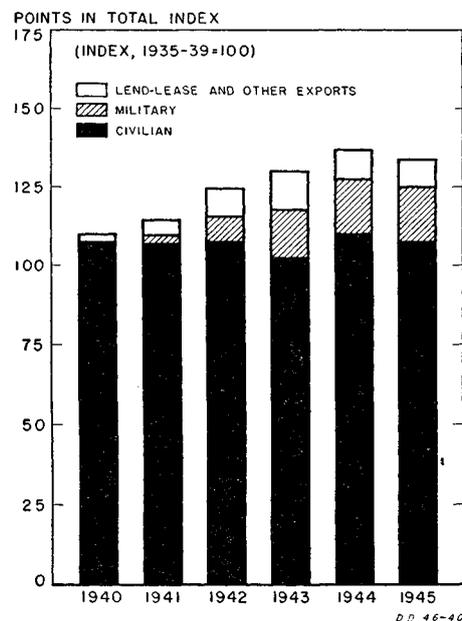
Prices—bolstered by heavy demand both at home and abroad and, in a few cases, by Government loan and purchase programs to support prices—continued as a favorable factor in the farm production situation in 1945, averaging 4 percent higher than in 1944. The moderate price reaction, especially in fresh fruits and vegetables, during the third quarter of the year was followed by a general advance which brought prices received by farmers at the year end to the highest level since 1920. On the whole, prices were more frequently at their ceilings than at the minimum levels guaranteed by the Government.

#### Slightly Less Food for Civilians

As shown in chart 13, noncivilian requirements for food continued high in 1945, accounting for about one-fifth of total food disappearance. This represented a small reduction from 1944 in the absolute amount of food diverted from domestic civilian consumption, but about the same relative proportion as in the earlier year. The amount of food for lend-lease and other exports was lower in 1945 than in any year since 1941.

Per capita civilian consumption of food in 1945 averaged high for the year as a whole—9 percent above the 1935-39 average. However, this was a slight reduction from the preceding war year

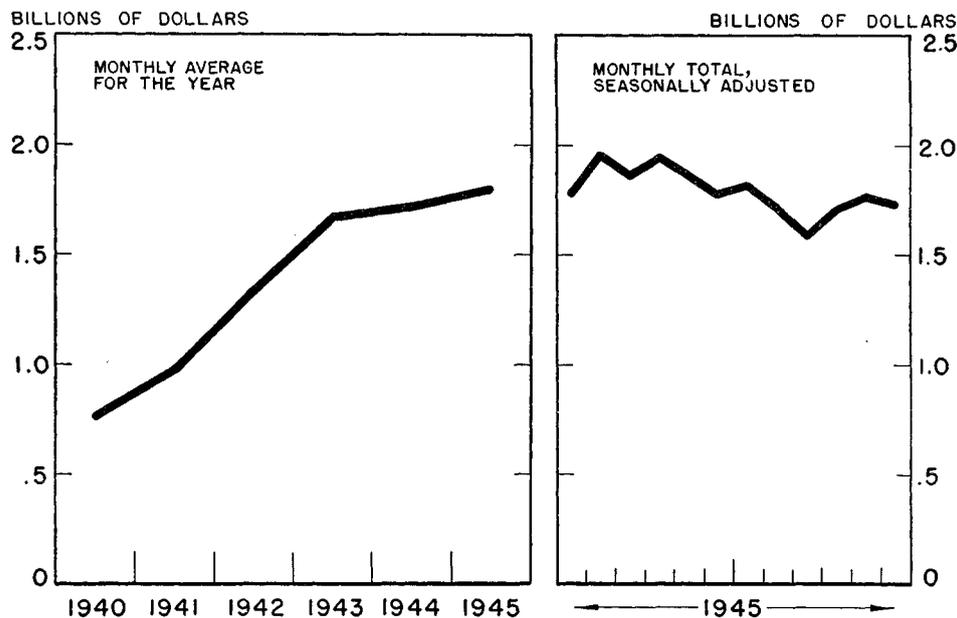
Chart 13.—Total Food Disappearance<sup>1</sup>



<sup>1</sup> Includes domestically produced and imported foods. Civilian food disappearance for 1940 includes a small amount of military purchases. Data for 1944 and 1945 are preliminary.

Source: U. S. Department of Agriculture.

Chart 12.—Cash Farm Income, Including Government Payments



Sources: U. S. Department of Agriculture, except seasonally adjusted monthly totals which were computed by the U. S. Department of Commerce from data of the former agency.

when over-all civilian consumption reached an all-time high—11 percent above the base period.

During the first half of last year, per capita consumption of several important foods—meats, fats, and oils, canned fruits, and sugar—was restricted below prewar amounts. But following VJ-day there were sharp cutbacks in military and lend-lease purchases, which were only partly offset by increased procurement for relief feeding. As a result, civilian supplies of certain foods, notably canned fruits and vegetables and meats showed marked improvement.

A few foods remained in short supply, but these constituted only a small part of consumer outlays. Butter is an example. Milk was diverted from butter manufacture to more profitable dairy products as a result of the removal of war food orders which had previously limited the sale of fluid milk and cream, and restricted the use of butterfat.

The civilian supply of other edible fats also remained below the prewar level. Substantial improvement here awaits the resumption of large-scale imports.

Sugar was the only other important food below prewar supply at the year end, as well as the only food remaining on the ration list. Supplies were as tight as at any time during the war and were expected to continue short for several months.

#### New Peak for Farm Income

Cash farm income (cash income from marketings plus Government payments) reached a new peak of 22 billion dollars in 1945—the culmination of a rising trend which has persisted through the past 7 years (chart 12). It was noted in the earlier discussion of the distributive shares of national income that the net income of farm proprietors totaled almost 13 billion dollars last year, as compared with 4½ billion in 1940 and about the same amount on the average during 1935-39.

The high farm income in recent years has been used in part to accumulate record cash holdings and to reduce farm mortgage debt to the lowest point since 1913. Thus, the war has materially strengthened agriculture's financial position.

#### Land Values Continue to Rise

As a result of high commodity prices and incomes, farm land values have risen appreciably, and this advance did not halt with the war's end. At the end of 1945 the price of farm land was 60 percent higher than in 1935-1939. Voluntary land transfers have become much more numerous and the proportion of resales is rising. In a recent survey it was found that 12 percent of the farms being sold were held for less than 2 years and that the typical resale profit was 30 to 35 percent.

#### Construction Activity

Restricted previously by wartime necessities, privately-financed construction was permitted to expand prior to the final termination of the war.

The construction industry did not have the same problems in resuming civilian

activity as did manufacturing. In general, there were no plants to clear out, little or no war work to finish up, and few contracts to terminate.

On the other hand, the working force for construction had to be newly re-

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cruited. Furthermore, construction faced the task of organizing new undertakings, getting requisite materials assembled on-site, and obtaining increased supplies of building materials from plants operating far below capacity.

The road to recovery of civilian construction was opened by the early easing of wartime restriction in this field. Where plans and organization for new projects were readily available, expansion forged ahead as soon as labor was recruited and the necessary inventories were accumulated. Although the latter constituted time-consuming obstacles, enough resources were mobilized to show a notable advance in the later months of the year.

New privately financed construction expenditures in the second half of the year were double the rate of the first half. This meant a rate of dollar outlay equivalent to that in 1939, but by reason of the large rise in costs, it meant a volume of construction still much below that of the prewar year. Also since the revival in housing was in its initial stages fewer houses were completed than were started.

Widespread public attention centered on the construction industry in late 1945 when it became apparent that the housing shortage would be a principal factor hampering the smooth return of veterans to their normal peacetime pursuits, and that actual hardships were in store for substantial numbers of citizens, unable to buy or rent suitable family quarters. Thus, despite the progress under way, the personal hardships incurred by lack of housing raised the issue of emergency measures to speed up the 1946 residential construction program and rearrange existing facilities for fuller utilization.

**Private Construction Overtakes Public**

An important feature of the expansion of construction was the marked shift in importance between publicly and privately-financed activity. As can be seen in chart 14 publicly-financed construction, chiefly of war plants and military installations, has dominated construction activity in recent years. In fact, 80 percent of total new construction fell into this category in 1942 and 1943. This trend was reversed in July of 1945, and the margin by which private exceeded public construction has subsequently increased steadily. By December the value of private was more than triple that of public construction.

For the year as a whole, the total dollar volume of new construction in the United States was 4.7 billion dollars. This compares with an average of about 5 billion in the period 1935-39 when costs were considerably less. On a physical volume basis, construction was probably 30-40 percent below the prewar average. The 1945 total was composed of an estimated 2.7 billion dollars private and 2 billion dollars of public construction.

**Public Industrial Construction Drops**

Some expansion of Government-sponsored industrial construction occurred in 1945 prior to VE-day, but by the end of the year this source of construction activity dwindled to a shadow of its former

size. Public industrial construction, which averaged about 65 million dollars a month in the period August through December 1944, had been stepped up to an average of 75 million dollars a month in the first quarter of 1945 in response to the military demands for additional capacity of selected items. Expenditures on this class of construction reached a peak of 80-85 million dollars in April and May.

VE-day was responsible for the issuing of immediate stop-work orders on much of the new construction. By August, the value of public industrial construction had declined to 49 million dollars. Cessation of hostilities with Japan resulted in additional cuts in the sharply curtailed program, so that 20 million dollars were spent for plants in October and considerably less in December.

**Private Industrial Construction Recovers**

The trend in private industrial construction up to the ending of the war and the removal of controls, was tied to the trend of public industrial plant expansion. Private industrial construction proceeded at a rate of about 40 million dollars a month in the first quarter of 1945 and averaged 52 million dollars in the second quarter.

The continuous relaxation of controls following VE-day was followed by a re-

surgence of private building for nonwar purposes. This lifted the monthly rate to almost 60 million dollars in the third quarter and to 90 million dollars in the last three months of 1945, despite the usual decelerating effect of the onset of winter on new construction.

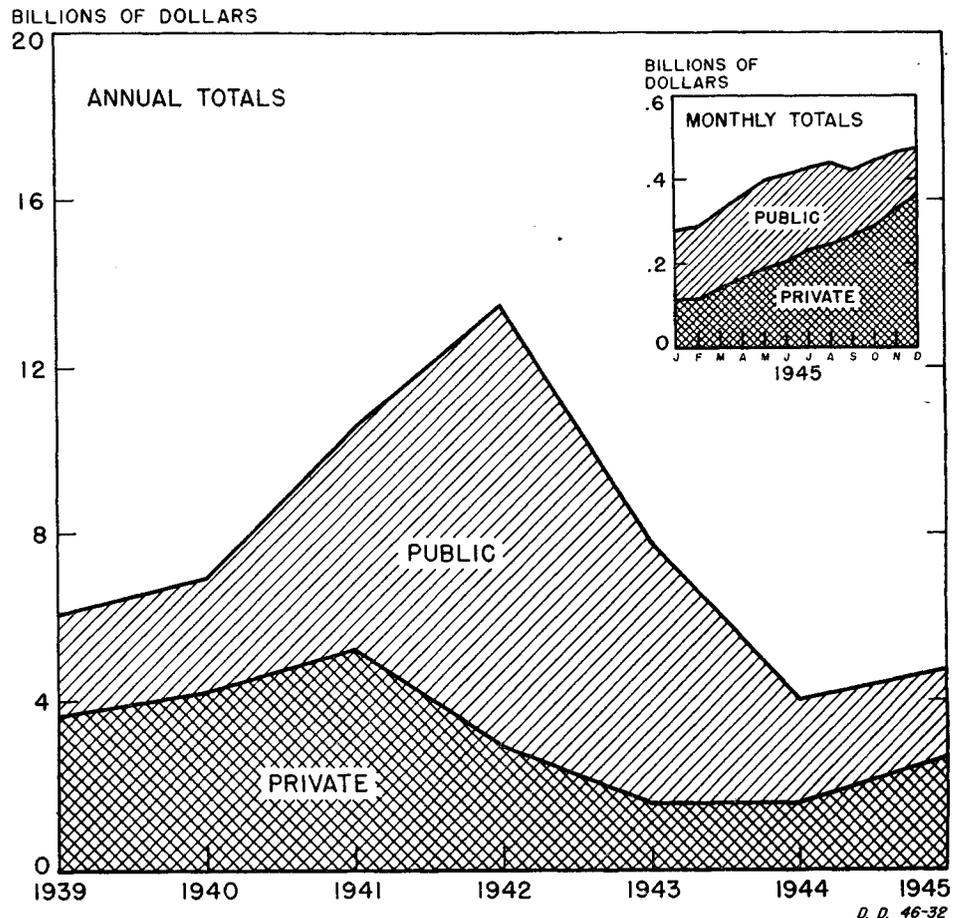
The needs of reconversion acted as a stimulus to post VJ-day private industrial construction. Their fulfillment required not only sizable alterations of existing plant, in many cases, but the speedy completion of alterations and additions. These needs were not all satisfied in 1945; some of them will carry over into this year. Moreover, there will be the further demand arising from capacity expansion for the enlarged markets facing business where surplus Government plants are either not available or are considered not adequate.

The Department of Commerce survey on planned capital outlays, as reported in the June and July 1945 issues of the SURVEY, offers support to the belief that business management plans for construction and modernization will have the effect of maintaining the 1945 year-end rate of activity at least through this year.

**Spurt in Residential Construction**

All during the war, construction of residential facilities was subordinated

**Chart 14.—New Construction Activity, by Ownership**



Sources: Data for 1944 and 1945 are joint estimates of the U. S. Departments of Commerce and Labor; data prior to 1944, U. S. Department of Commerce.

to the needs of industrial construction in order to keep down requirements for raw and fabricated materials and for labor. But the construction of new dwelling units did not come to a complete halt. In 1944, a total of 170 thousand units was started and in 1945 approximately 245 thousand were started.

An important contribution to the increase in the privately-financed segment of construction volume was provided by residential building during the last quarter of the year. In value terms, the first 6 months of 1945 saw about 210 million dollars worth of residential construction put in place; a somewhat larger amount was spent in the third quarter alone. The rate continued to increase in the fourth quarter, unaffected by the usual seasonal downturn. The year end rate was somewhat over half that of 1941.

#### Background of Housing Shortage

The present severe housing shortage derives from a number of developments which dominated residential construction and housing demand through the war years. In the first place, during a period of rapid shifts in population location, construction of housing was sharply curtailed and priority was given to construction in defense areas. Future utilization of the latter, in some cases, is doubtful.

In addition, the recent rapid increase in family formation—aided by the improved financial position of many families—contributed to a substantial increase in demand for adequate housing at the war's end. The inevitable obsolescence of some dwelling units during the period also contributed to the problem.

The cumulative effects of the deficiency in residential building throughout the war are highlighted by the magnitude of the strain on existing housing caused by the large-scale return of war veterans. Many of these ex-servicemen want to set up housekeeping for the first time. A large number of families separated throughout the war are being reunited. At the same time, many other families that doubled up during the war period are now seeking separate living quarters, either because of the return of an additional member or because of an improved economic situation. All these are factors which have helped to create the present demand, estimated by the President in his speech of January 3, 1946, at 5 million new dwelling units.

But when it is considered that the construction industry has never produced more than one million units in a year, it is apparent that it will take a considerable period to meet the deferred demands—longer than for any other item the consumer requires. However, demand is not a fixed amount over time and how many residential units will be built over the next 5 or 8 years will depend in part on the trend of building costs and the level of consumers income.

#### Materials Can Limit Expansion

A major factor in future expansion will be the rate at which supplies of building materials can be increased. The material situation for construction was discussed in some detail in the November

1945 issue of SURVEY. At the close of the year, the outlook was favorable for supplies of most types of materials needed for the expected volume of construction. This judgment is, of course, conditioned upon an evaluation of other considerations which are major determinants of the volume of construction. Insofar as 1946 is concerned the most important factor is the speed with which the organizational problems of the industry can be solved.

Metal building materials which had been in short supply during most of the war period, became relatively easier with the simultaneous release of steel and metal working capacity after VJ-day. On the other hand production of some materials which had been free of controls—such as brick and clay products—but where production had been low, began to be stepped up during the fall. At the year's end brick and clay output was close to double the rate of February. However, it was far from the rate necessary to meet the tremendously expanded demand expected in 1946.

Another material in which some supply difficulty may present itself is lumber. Output in 1945 amounted to an estimated 27.5 billion board feet. This compares with an annual average of 33.5 billion board feet in the war years. While no substantial increase in total lumber production is anticipated, it is probable that the additional amounts required for construction will be provided, because total requirements will not include the very heavy quantities taken in 1945 by the military services.

Supplies of such products as cement, asphalt roofing, hardware, and heating equipment were beginning to improve before the end of the year. And production during the winter months of 1946 should be sufficient to meet expanded needs by spring.

Thus, most materials are becoming available in adequate quantities for the country's present construction programs which are based, of course, upon an evaluation of all limiting factors with materials not being controlled. However shortages and delays in delivery will continue to affect some localities. In addition, any expansion of present construction plans based upon breaking other bottlenecks will require further steps to expand the output of materials.

#### Government Controls Removed Early

The pattern of 1945 construction developments is closely tied to the changes in Government controls. Actually, construction was one of the first areas to be affected by the changing military situation. The War Production Board relaxed the terms of Limitation Order L-41 on May 29 and again on June 11 in order to hasten the construction or alteration of industrial facilities for producing bottleneck items or components and essential civilian items in short supply.

The objective of these relaxations was to insure that limitations on construction should not impede the rapid reconversion of industry nor delay the reemployment in civilian production of the largest possible number of men. Following VJ-day, this policy was further im-

plemented by issuance of an order permitting the building of industrial plants without WPB authorization after August 21, 1945. Final revocation of L-41 on October 15 not only removed all restrictions on the building of residences, but also eliminated the price ceiling of \$8,000 on a finished house.

The decision to remove all restrictions on construction was based on the assumption that this would be the most expeditious way to get an immediate expansion of residential construction. It was recognized, however, that such a step would have to be accompanied by action designed to increase the production of building materials and to help distribute the available supplies in an equitable fashion. Therefore, with the removal of the last controls on construction, the Director of the Office of War Mobilization and Reconversion announced a program for increasing the supply and flow of scarce materials, and for strengthening price controls on such materials.

#### Emergency Action Instituted

Within 3 months it was necessary to reestablish some degree of control in order to expedite the construction of urgently needed housing. To assist veterans in meeting the crisis created by the lack of housing, the CPA issued a new priorities regulation in December to become effective on January 15, 1946. This regulation is expected to result in the allocation of approximately 50 percent of the available building materials to the construction and reconversion of moderate-priced dwellings for which veterans will be given preference.

Builders may apply for priorities entitling them to receive specified scarce building materials. Furthermore, under the terms of the regulation, \$10,000 is fixed as the maximum sales price of a new house (including land) and \$80 per month as the maximum shelter rent which may be obtained in order to qualify the proposed housing for priorities assistance.

Emergency measures for the use of barracks and dormitories to house returning veterans and their families were started as a measure of temporary relief. Also, certain types of family dwellings—originally built as war housing but now located in areas where they are surplus—in the coming months may be cut down, panelized, transported and re-assembled as another means of providing temporary shelter without excessive drain on the present shortage of raw materials for building.

#### Problems in Construction

The expansion in private construction that has been evident since VJ-day is expected to continue throughout 1946. For at least the first few months, however, the advance will be slow. In the light of this, the intensity of present demand for new housing creates a situation which is highly inflationary in its possibilities. In the immediate future, this problem may be mitigated by close control on prices of building materials and maintenance of rent control. A proposal to institute price ceilings on the

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sale of new and old residences was submitted for congressional consideration (Patman bill) towards the end of the year.

A good part of the case for the institution of price controls on new and existing housing is based on the fact that a runaway situation in the selling prices of houses may deprive the construction industry of its long-term market. Competition for the relatively few units to be available in 1946 could drive the price well out of reach of veterans and individuals of moderate income who constitute the bulk of the housing market.

Many homes can be sold now at any price because people will make great sacrifices to obtain a commodity as basic as shelter. But in undertaking the long-term responsibility of paying for a home that is priced beyond their future probable earning power, such individuals face the prospect of foreclosure and future loss of savings.

Therefore, the immediate danger of unlimited ceilings for new housing is that builders may simply price themselves out of the market and set the construction industry back by several years. Such a development would parallel the situation which occurred after the last war and might have equally unfortunate effects on the entire economy.

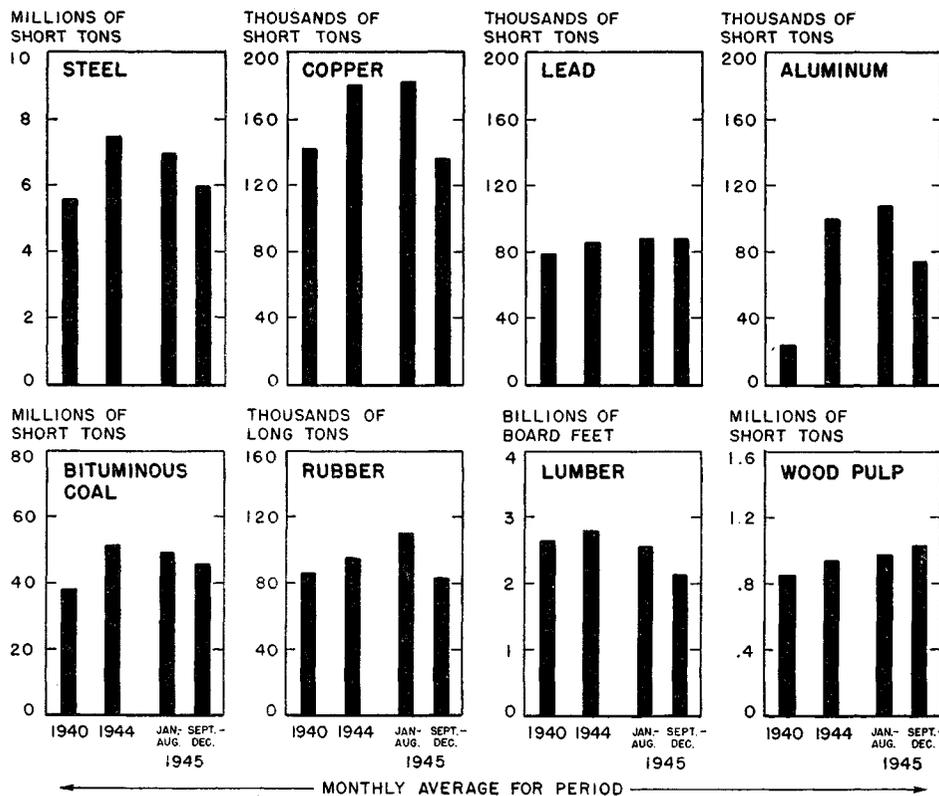
On the other hand, an attempt to furnish a large volume of housing at low prices, with a low profit margin per unit, might easily provide a volume market which would not only satisfy the needs of the growing population but might also enhance builders' long-term profits. This is a problem which involves the general question of reducing costs with the aid of technological advances, guided by intensive research and lower financing charges.

### Raw Material Supplies

The raw material supply situation became generally easier over 1945, with the easing evident even before the German surrender. The orders backlog for many materials—in particular steel—remained heavy, it is true. But this represented the necessity of filling industrial pipelines and the accumulation of inventories preliminary to the resumption of large scale civilian production. There was little evidence at the year end that deficiencies in the supply of basic materials were likely to be a limiting factor in industrial output, since more important problems of organizing production remained to be solved.

Production of most materials reacted quickly to the war's end. They declined appreciably from the wartime peaks, but generally remained well above prewar levels and made partial recoveries in the final months of the year. At the same time, cancellation of war contracts released large quantities of materials for fabrication into civilian goods. Thus, while at the year's end some problem areas and possible shortages—relative to initial heavy demands—continued, the pipe-lines for civilian production were filling up.

Chart 15.—New Supply of Selected Raw Materials<sup>1</sup>



<sup>1</sup> New supply represents domestic production plus imports except for steel which is production only. Data for copper, lead, and aluminum include primary and secondary. Rubber includes crude, synthetic, and reclaimed.

Sources: American Iron and Steel Institute; U. S. Department of the Interior; Civilian Production Administration (formerly War Production Board); and U. S. Departments of Agriculture and Commerce.

nearly 90 million in the record year 1944. It was still above the rate in 1940, the prewar peak year, when output totalled 67 million tons.

### New Ferrous Metal Supplies Contract

The sharp contraction in copper and aluminum supplies was to be anticipated. Production of both these metals had been pushed to extraordinary limits in order to provide for the war machine a volume of material out of all proportion to normal use. As these war uses were eliminated the flow of new supplies was cut—in the case of copper somewhat below the high prewar level of 1940.

New supplies of aluminum were still about three times above the prewar rate and were expected to remain relatively high. New and expanded uses developed during the war could sustain increased output although the competitive position of the various metals in the postwar period was not established in the short peace interval of 1945.

Lead was the principal material—except tin and lumber—where a somewhat straightened supply-demand situation continued. The drop in domestic production—a decline extending over the past 4 years—was to a large extent offset by an increase in imports, and total supplies were slightly above the amount reached in 1944. Consumption, on the other hand, declined somewhat following

### Drop in New Supply Availability

Chart 15 depicts for eight important raw materials the change in the availability of new supplies (domestic production plus imports) that accompanied the transition from war to peace. Monthly averages for the war year 1944 and for the peace year 1940 are presented in addition to averages for the war and post-war periods of 1945. The year 1940, rather than 1941, is given for comparative purposes because it was less influenced by developing defense programs. The general decline in the flow of most new supplies following the war's end can clearly be seen.

### Steel Production Declines

Steel ingot output in 1945 totalled slightly under 80 million tons, a drop of almost 10 million tons from 1944. After declining only moderately in the first 8 months, the effect of the end of the war and the necessary reconversion changes reduced operations to the lowest volume in 5 years. Output in the last 4 months of 1945 was at an annual rate of 72 million tons, as compared with 84 million in the first 8 months of the year and

the war's end. Use of lead for battery production—military and civilian—was however only slightly below the wartime highs. Military takings for ammunition and tetraethyl were down somewhat more. Government stocks continued to decline but total stocks rose slightly. Because the situation had not eased sufficiently the industry continued under wartime controls.

#### Nonmetallic Materials

Outside the metals group, there was also a general easing in the supply situation. Coal and chemicals came in easier supply—the latter as military requirements were virtually eliminated. Rubber also, though production declined after the war (see chart 15) was in increased supply for civilian use by reason of the reduced military demand. Stocks were at a near record total of 367,000 tons on December 1st and domestic production of synthetic rubber was curtailed as Far Eastern sources of supply began to open up. Similarly wood-pulp supplies, which had been tight throughout the war began to ease as a high rate of domestic production was augmented by the resumption of imports from Sweden.

Lumber production declined for the fourth consecutive year and at 28 billion board feet was 14 percent below 1944 and 10 percent below 1940. A strike of more than 2 months duration in an important producing area of the Pacific Northwest area, plus the continuing difficulty in labor recruitment because of low wage scales, contributed to the low output in the last 4 months of the year. However the sharp decline in military takings made it probable that most 1946 needs—of which construction was most urgent—could be met, though local and specialized shortages might hamper some activity.

#### Potential Capacity Large

Perhaps the most striking feature in the materials picture—indicated in chart 15 by comparison of the rate of output in 1944 with that in 1940—has been the tremendous expansion of capacity for material production achieved during the

### Domestic Transportation

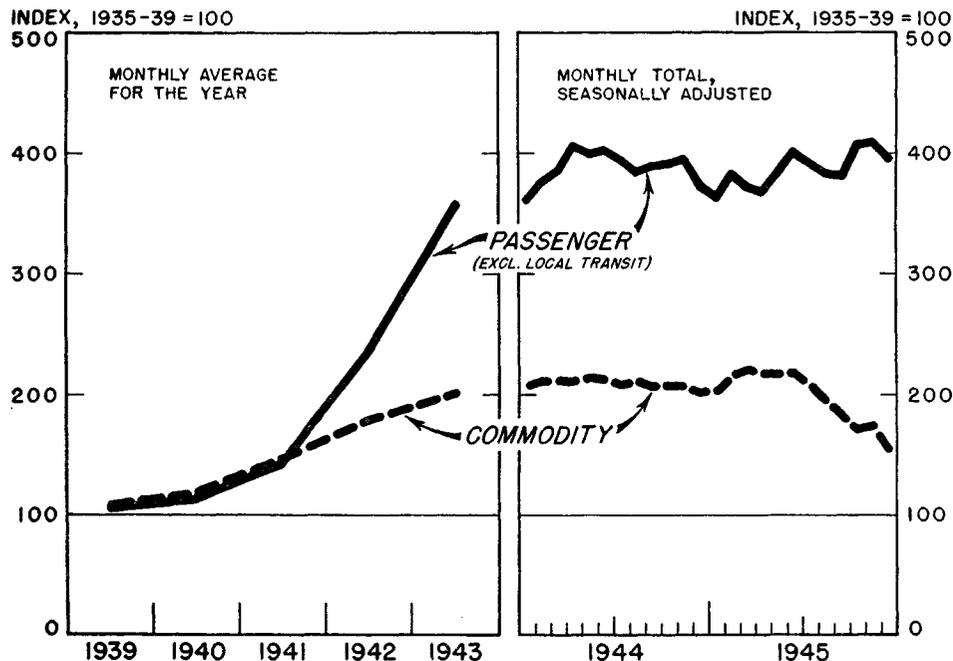
The Nation's transportation industry continued to be hard pressed during the first 8 months of 1945 owing to the shifting requirements occasioned by the climax of the war in the two widely separated theaters of operation, and later by redeployment. The passenger and freight performance of the industry through the war years and the impact of the war's ending are shown in chart 16.

Victory in Europe brought a decline from the peak reached in commodity traffic in the early months of the year, and final victory over Japan was followed by a sharper drop. For the year as a whole combined commodity traffic decreased 5 percent from the 1944 level.

#### No Drop in Passenger Travel

Passenger traffic, on the other hand, was well maintained throughout 1945.

Chart 16.—Volume of Intercity Transportation<sup>1</sup>



<sup>1</sup> Indexes are based upon passenger-miles and ton-miles.  
Source: U. S. Department of Commerce.

war. The year 1940 was generally a top year for raw material output little affected by defense needs. But monthly average domestic production during the period from Pearl Harbor to VJ-day was higher than 1940 by 30 percent in the case of steel, about 250 percent in aluminum, and 30 percent in coal. Domestic production of synthetic rubber in 1945 actually exceeded imports of crude in the stockpiling year 1940.

This war-created capacity is now available for peacetime manufacturing. Even though currently we are supplying the materials at below capacity rates we are providing for industrial activity higher than in any full peacetime year. The material base already exists for expanding production to well above current levels.

The rather erratic movement in the seasonally adjusted intercity passenger index is caused to a considerable extent by the trend in troop transport. Passenger-miles in organized troop movements were at peaks in the spring and fall of 1944 and in middle and late 1945.

The eased shipping situation and increased gasoline supplies in the few months following the end of the war resulted in a significant shift in traffic away from railroads to other forms of transport. The percentage of points contributed by the railroads to the total transportation index declined from 71 in 1929 to 57 in 1939, rose gradually through the war years reaching 63 at war's end, and then fell to 60 by the end of 1945. The reversal of the prewar trend during the war reflected transfer of ships to foreign service and the effects of war re-

strictions on highway traffic resulting from shortages of equipment and gasoline.

#### Ton-Miles More Sensitive Indicator

Rail net revenue ton-miles of freight and carloadings in 1945 were some 8 and 4 percent, respectively, below 1944 volume. In both cases, the declines occurred almost entirely in the second half of the year. The spread between the carloadings and the ton-mile series was caused largely by the decrease in average haul as deliveries to export points began to fall. With the exception of record carloadings of grains and minor gains in livestock and l. c. l. merchandise, loadings of all commodities were off from last year.

An important factor in the rail carriers' ability to more than double their prewar volume of freight traffic without critical disruptions such as occurred in 1917 and 1918 was the greater efficiency made possible by heavier loading of cars under order from ODT. As measured by net ton-miles per loaded car-mile, there was an increase from 27.6 tons in 1940 to 32.3 in the first half of 1945. To help maintain this wartime gain, establishment of rate inducements is being considered.

#### Developments Affecting Rail Rates

A 1945 development having future significance was the Interstate Commerce Commission decision moving in the direction of eliminating territorial freight-rate disparities on goods moving on "class rates." The order is not yet in operation because of court action by several of the northern states. Also affecting rates was the elimination by Act of Congress of preferential rates to the Government on land-grant railroads to go into effect October 1, 1946.

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**Truck Transportation Eases**

Although the volume of freight carried by intercity "for hire" trucks was at a record during the early months of 1945, the loss of war traffic after VE-day brought ton-mileage for the year as a whole slightly below the 1944 mark. The Office of Defense Transportation lifted all its controls in the latter part of the year.

Supplies of vehicles, tires and parts, were more plentiful during 1945, especially in the last quarter. By the year-end, military takings of new trucks had dwindled virtually to the vanishing point, so that production for civilian use almost tripled from 1944 to 1945. Production in the latter year, however, was still less than half 1939 volume.

**War Pipe-Lines Shut Down**

Oil pipe-line traffic in 1945 declined by 3 percent from the 1944 figure, while traffic through gas pipe-lines showed a slight increase. Following the sharp rise in volume from 1943 to 1944 with the opening of the war emergency pipe-lines, the traffic volume leveled off at essentially capacity flow. Then, in the latter months of 1945, with the closing of the Big and Little Inch lines and resumption of tanker shipments on a large scale, it reverted back to the mid-1943 level.

**Recovery in Water-Borne Movement**

Domestic water-borne traffic, which dropped by almost 50 percent between 1941 and 1944, increased more than 10 percent in 1945 and by year-end the seasonally adjusted index was only 15 percent below the 1935-39 average. This rise in ton-mileage was owing entirely to expanded tanker shipments of petroleum to the east coast.

Shipping on the Great Lakes during the 1945 season was slightly lower than in 1944. Movement of iron ore from the upper lakes fell from 81 million long tons to just under 76 million. Declines in coal and petroleum volume were partly offset by the record grain traffic.

**Passenger Traffic**

Passenger traffic in 1945 for all carriers combined was at essentially the 1944 volume. The demobilization program fol-

lowing final victory kept requirements high in the latter part of the year.

Use of passenger cars for pleasure and business (not included in the indexes shown in table 13) increased in 1945. This was caused by a reduction in military requirements of petroleum and by greater availability of other modes of transportation, which permitted doubling the gasoline ration for A-card holders during the one-front war phase and completely lifting rationing after the fall of Japan. Thus, commercial carriers again became aware of the competition of passenger automobiles, although substantial gains in automobile traffic over the prewar level must await a sizable increase in the population.

**Heavy Military Travel in Second Half**

Revenue passenger-miles operated by the railroads declined about 4 percent from 1944 to 1945. However, unlike the traffic trends experienced by other transport agencies, the volume of rail passenger movement in the second half of the year was considerably higher than in the first half.

Passenger-miles by organized troop movements increased slightly from 1944 to 1945—being 11.7 and 12.2 billions, respectively, for the two years—but over 7½ billion of the 1945 total were concentrated in the last 6 months of the year. While no quantitative data are now available on furlough travel and other movements of Army and Navy personnel, such travel may also have reached its peak in the same period.

The considerably eased gasoline and equipment situation and high consumer demand resulted in record intercity motorbus traffic in the first three quarters of 1945. However, a 10-percent decline in the last quarter, partly caused by industrial disputes involving some lines, just about canceled the gains in the previous months.

**50-Percent Gain in Air Travel**

Domestic air lines in 1945 registered an increase of more than 50 percent above 1944 in passenger-miles flown. Since demand had greatly exceeded operational capacity during the entire war period, this large gain resulted mainly from an increase in serviceable planes from 269 in mid-January a year ago to 401 at the beginning of this year.

Priority regulations were discontinued, but the transportation jam on the west coast, caused by troops returning from the Pacific theater of operations, necessitated an ODT order in late November requiring the air lines to set aside 70 percent of their space from specific west coast cities for the exclusive use of authorized military personnel.

The number of revenue passengers carried by the Nation's local transit lines was about 2 percent higher in 1945 than in 1944. This type of transport is quite sensitive to changes in civilian nonagricultural employment, and successive small declines in traffic volume were evident in the last two quarters of the year. Increased use of private automobiles will also have a marked effect in this area.

**Retail Sales**

Retail trade was one of the very few business indicators that showed a decided increase in 1945. From the viewpoint of the year as a whole this is not surprising, since income payments to individuals also were higher in 1945 for the reasons indicated in an earlier section. The unusual aspect of retail sales last year was the almost boom-like spurt in the last quarter when the general economic tendencies had been reversed by the ending of the war.

Thus, despite the decrease in income after VJ-day and the inadequate supply of many categories of goods, retail sales amounted to over 74 billion dollars last year. This record dollar total was 7 percent above 1944 and more than three-fourths again as much as in the prewar year 1939. (Chart 17.)

**Consumers Spent Freely With War End**

Sales in the first quarter of the year, seasonally adjusted, rose about 2 percent above the fourth quarter of the preceding year due in large part, to a sudden upsurge of purchases in apparel stores. Some of this can be attributed to a run on high-quality apparel following the announcement by Government agencies of plans to divert the civilian supply of fabrics into low cost clothing.

The upward sales movement ended in the second quarter as supplies of many consumer goods tightened because of heavy set-asides at the producers' and wholesale levels in the first quarter. This was especially true for food. After the war in Europe ended, conditions eased somewhat and sales began rising again.

It was VJ-day, however, that was the signal for the real surge upward. As indicated in the discussion above on consumer expenditures, the increase in civilian supplies and the removal of the brakes on spending more than offset the retarding factor of declining income.

**Table 13.—Volume of Transportation**

Type of transportation	Indexes (daily average 1935-39=100)							Percent change, 1944 to 1945
	1939	1940	1941	1942	1943	1944	1945 <sup>1</sup>	
Total transportation	106	116	142	180	214	224	216	-3.6
Total, excluding local transit	106	118	146	185	220	230	220	-4.3
Commodity, total	107	118	147	178	201	209	198	-5.3
Rail	104	115	146	194	219	222	205	-7.7
Air	132	156	205	353	577	786	1,036	+31.8
Intercity motor	114	130	172	190	210	210	206	-1.9
Pipe line (oil and gas)	110	117	130	149	189	252	249	-1.2
Water-borne (domestic)	113	121	124	75	67	68	75	+10.3
Passenger, total	102	107	125	184	256	274	275	+4
Total, excluding local transit	105	113	143	226	357	388	387	-3
Rail	103	108	133	244	400	434	416	-4.1
Air	148	226	294	291	324	445	692	+55.5
Intercity motor	104	110	143	214	279	292	292	0
Local transit	100	102	111	140	172	179	182	+1.7

<sup>1</sup> Preliminary.

Source: U. S. Department of Commerce.

Moreover, millions of returning soldiers were back buying at store counters rather than receiving necessities as G. I. issue.

The large increases in retail sales during the year, as in previous years, came primarily from the sales in nondurable goods stores. This was natural since the most stringent controls on civilian goods during the war were in the durables while nondurables were allowed considerable leeway. As may be seen from the chart, sales of nondurable goods stores continued to increase substantially, although at a reduced rate after 1942.

In the fourth quarter of the year, sales of these stores reached an annual rate over twice that shown for the year 1939 and about 15 percent above 1944. Sales of durable goods stores remained at a fairly low volume throughout the war with the first significant rise occurring in the fourth quarter of 1945. Even these sales do not reflect entirely the movement of durable goods because many such stores added nondurable goods lines during the war.

**Price Margin Factor**

The rise in the dollar value of goods sold in retail stores should not be taken as a measure of the change in the actual physical volume of goods that moved in the retail market. Nevertheless available price indexes do afford some notion as to the effect of prices on the value of sales. This is brought out in chart 18 giving the index of sales of retail stores since 1939 by quarters, seasonally adjusted, both in current dollars and in 1935-39 dollars.

The wide divergence of the two series after 1940 is very striking. It is noted that even by the use of this incomplete

price deflator the values obtained for the years 1942 and 1943 were well below 1941 despite the substantial increase in dollar volume shown. The last two years have been especially marked by the disappearance of low-priced items. Moreover, shifts in consumer purchases into higher-priced lines, though not as strong as in the earlier years, continued so that it is quite likely that there has been little change in the physical volume of goods sold annually since 1943.

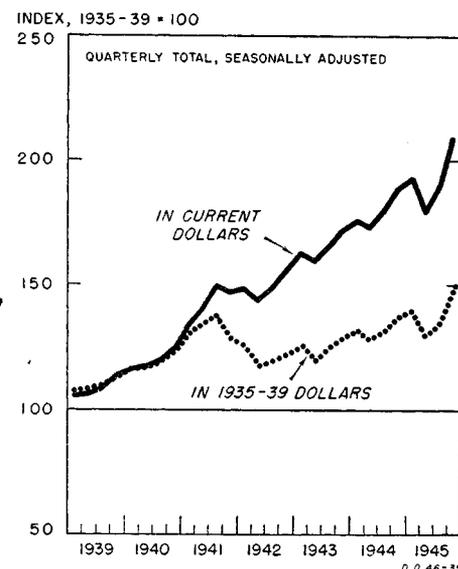
**All Groups Had Higher Dollar Sales**

Dollar sales of all major groups of retail stores increased in 1945 but considerable differences were shown from the rates of increase in previous years. These differences are indicated in chart 19 which highlights the sales movement by kinds of business. Most of the nondurable goods stores reveal a narrowing of the increase in sales from the high rates in the immediately preceding years. This was true in food establishments, eating and drinking places, general merchandise and drug stores. The nondurable goods stores with an accelerated rate of increase in 1945 were apparel stores and filling stations.

**Big Apparel Sales Despite Shortages**

The demand for apparel which had remained strong throughout the war was further intensified as servicemen began to be released in substantial numbers. Dollar sales of men's wear stores in October and November were 25 percent above the same months of 1944, though the physical volume in the year was probably little, if any, higher. Stocks were reduced to such a low point that many retailers were forced to limit sales.

**Chart 18.—Sales of Retail Stores in Current and 1935-39 Dollars**



Source: U. S. Department of Commerce.

Moreover, appeals were made to civilians to defer buying clothing until the needs of returning servicemen had been satisfied.

**Gasoline Sales Accelerated**

The sharply accelerated sales of filling stations following VJ-day when, after about 2½ years of shortages, drivers were once more given full access to the available supply of gasoline. Sales of filling stations leaped immediately and by the end of the year had risen 30 percent, reaching a level of less than 10 percent below the prewar peak.

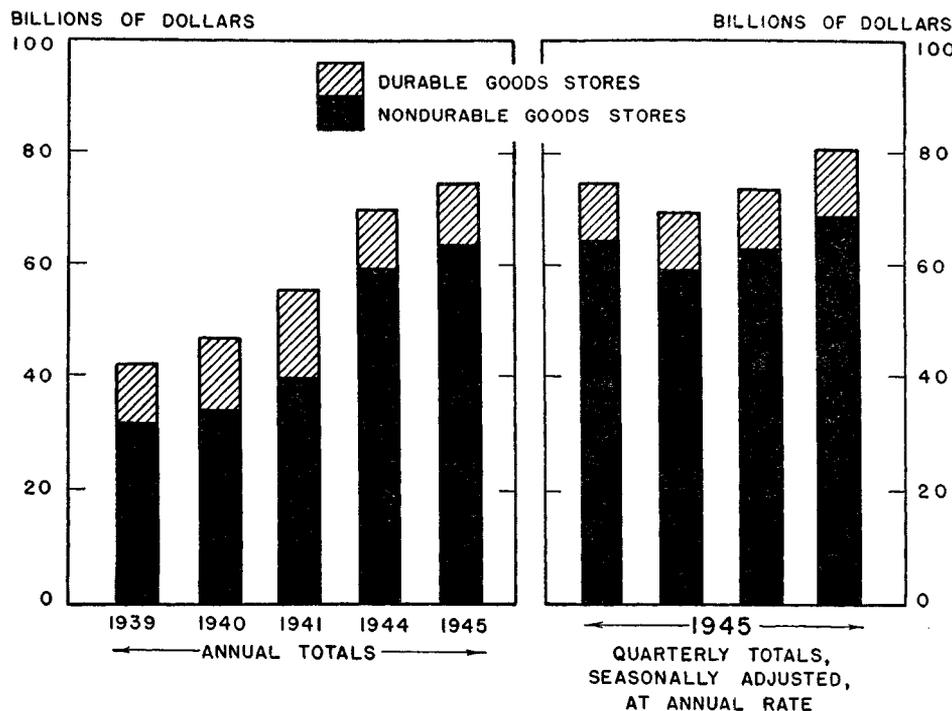
The effect of the availability of gasoline on sales in the automotive group was soon apparent. Despite the fact that new automobile purchases played relatively no part in the picture, total sales in this field rose 13 percent in 1945 over 1944; the fourth quarter rise was 35 percent.

This increase came primarily from extensive repairs and sales of parts and accessories as automobile owners moved to put their cars in shape to take advantage of the eased gasoline situation. As a matter of fact, while sales increased substantially over 1944, they were still low—60 percent under the prewar peak. Or considered in another way, less than one-fourth of the drop from the 1941 peak had been regained by the end of the year.

**Another Big Year for Jewelers**

Jewelry stores exhibited a much different pattern of sales from that of any of the other groups of durable goods stores. In the earlier war years, with most jewelry stocks ample, sales moved more or less in line with disposable income. The largest spurt in sales came early in 1943 when buying was very heavy just before the new excise taxes went into effect. While both 1944 and 1945 showed more moderate increases, nevertheless

**Chart 17.—Sales of Retail Stores**



Source: U. S. Department of Commerce.

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the consumer continued to spend more for what was available.

**Equipment Sales Mixed**

Although the dollar volume of sales in furniture and furnishings stores was maintained from 1941 to 1944, price rises accounted for a considerable share of the total. Production of some furniture and house furnishings items was allowed all through the war but on a somewhat restricted basis. Thus the level of sales in these stores did not fall as much during the early war years as was the case in stores carrying household appliances and radios. Radios were completely barred as a civilian product and appliances limited to certain essential items and repair parts.

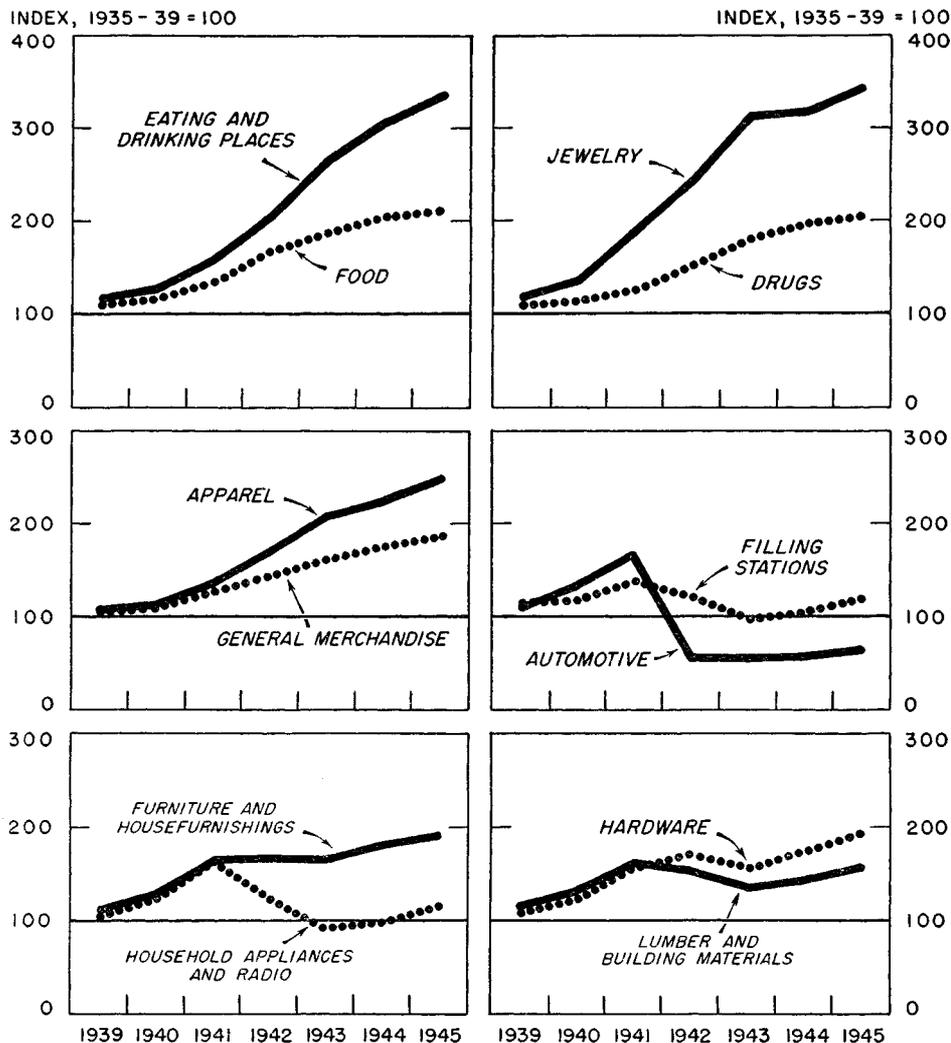
Because furniture, hardware, lumber, and building materials were being manufactured in quantity during the war, though principally for war purposes, the problem of reconversion in these lines was not the most important factor in the shift to peacetime operations. The principal retarding factors here were lack of raw materials and labor to meet the enormously increased demand. Thus for hardware and furniture and furnishings stores sales in 1945 were well above 1941, while lumber and building materials store sales nearly reached the 1941 total.

In appliances, however, the problem of reconversion bulked much larger. In fact, while some of the smaller appliances such as electric irons, heaters, small radios, and the like, did reach the market, it was only in small quantities. Kitchen utensils and related items were in fair amount. However, the principal items in this group, namely, refrigerators, stoves, washing machines, and so on, never really reached the selling stage. Showroom models appeared but orders were taken only on an indefinite future delivery basis.

**Inventories Low and Spotty**

Although retail store sales reached record levels and full production of consumer goods had not yet been attained, the value of inventories of retail stores rose slightly during the year. This situation is explained in large part by the continuing trend to higher-priced merchandise. The actual physical volume

**Chart 19.—Sales of Retail Stores, by Kind of Business**



Source: U. S. Department of Commerce.

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of inventories was below that of a year ago. In 1945 no improvement was noted in the abnormally low stock-sales ratio which had existed throughout the previous year.

Most of the nondurable goods stores reported a rise in inventory values. Gasoline supplies were more plentiful than in 1944, and in the latter half of the year the food supply situation became considerably easier. General merchandise stores also reported an increase in inventories.

Unlike the other nondurables, apparel stocks declined sharply in the last 4 months of the year. As a result of the heavy sales of men's clothing, mentioned

earlier, and comparatively low production, stocks of men's wear stores were down nearly a third from the previous year.

The over-all value of inventories in the durable goods group changed little from a year ago. Inventories of building materials stores, compared to the previous year, began moving downward in the second quarter. With the ending of lumber controls in the fall retailers' stocks dropped very sharply. The automotive group also showed an inventory decrease. Gains in the value of stocks of home furnishings and jewelry stores, however, offset the losses of the other durable groups.

**Table 14.—Sales of Retail Stores**

[Millions of dollars]

Kind of business	1939	1941	1944	1945
All retail stores.....	42,042	55,490	69,484	74,630
Durable-goods stores.....	10,379	15,604	9,967	11,033
Nondurable-goods stores.....	31,663	39,886	59,517	63,597
Durable-goods stores:				
Building materials and hardware group.....	2,735	3,862	3,620	4,018
Home furnishings group.....	1,733	2,611	2,453	2,643
Automotive group.....	5,549	8,544	2,912	3,311
Jewelry stores.....	362	587	982	1,061
Nondurable-goods stores:				
Food group.....	10,165	12,576	18,989	19,728
Eating and drinking places.....	3,520	4,796	9,351	10,138
Apparel group.....	3,259	4,157	6,869	7,633
Filling stations.....	2,822	3,454	2,603	2,978
Drug stores.....	1,563	1,821	2,811	2,958
General merchandise group.....	6,475	7,931	10,854	11,621
Other retail stores.....	3,859	5,151	8,040	8,541

Source: U. S. Department of Commerce.

**International Trade and Financial Transactions <sup>2</sup>**

The end of hostilities launched a new chapter in international trade relationships. During the first half of 1945 the broad trends in exports and imports conformed to the general picture which had become familiar during the preceding war years. Following VJ-day, however, important changes occurred contrasting sharply with the earlier situation.

Foremost among these changes were: (1) The cessation of "straight" lend-lease (except in a few special cases) and reverse lend-lease as contributions to the

<sup>2</sup> The estimates used in this section, although still preliminary, have been revised from those appearing in Foreign Commerce Weekly, January 19, 1946.

common war effort; (2) the expansion of credits to foreign countries, resulting in a large net outflow of long-term capital for the year 1945, in contrast with an inflow in the preceding 3 years; and (3) a marked reduction in the final quarter of 1945 in the net transfer of gold and dollar balances to foreign countries.

**Termination of Lend-Lease**

The general effects of the sharp contraction in "straight" lend-lease transactions following the German collapse and of the formal termination of these transactions as of VJ-day are indicated in chart 20. This chart shows the total volume of goods and services supplied to and received from foreign countries and the portions thereof transferred under

lend-lease or other arrangements, such as contributions to UNRRA, not requiring payment.

Each section of the chart indicates that the volume of transactions not requiring payment was substantially reduced in the third and fourth quarters of 1945. By the final quarter contributions in cash or in kind no longer included any substantial amount of lend-lease aid, but reflected the growing volume of relief shipments through UNRRA plus some miscellaneous transactions not requiring payment.

For more than four years lend-lease was an integral part of the services of supply of the concerted United Nations' war effort. During its operation from March 1941 to October 1945, goods valued

at about 38 billion dollars were transferred to foreign countries, excluding transfers on a cash or credit basis.

As indicated in the chart, the sharp reduction by the year-end in goods and services supplied foreign countries under arrangements not requiring payment was offset to some extent by the increase in transactions necessitating payments in cash or the extension of credit. Most of this gain resulted from credits extended for the transfer of goods in lend-lease inventories and "pipeline" and to finance the acquisition of surplus property and installations abroad, and for civilian supplies furnished by the Army and Navy. These credits are discussed below in connection with capital transactions.

**Lower Merchandise Transfers**

Total transfers of goods by the United States to foreign countries, including transfers from oversea supplies, were slightly in excess of 11 billion dollars last year as compared with the record amount of 14.6 billion dollars in 1944. Excluding shipments under "straight" lend-lease and UNRRA and transfers from oversea supplies, merchandise exports last year were somewhat more than 5 billion dollars.

Compared with merchandise exports averaging about 3 billion dollars in the years 1936-38, the 5-billion-dollar figure represents an increase of roughly two-thirds. During this same period, however, it is estimated that the prices of nonmilitary export goods rose by 40 to 50 percent. Thus it seems that the increase over the prewar period is largely attributable to higher prices and that the physical quantity rose by a relatively small amount.

**Non-Lend-Lease Exports Increase**

As shown in chart 21 and table 15, the drop in total exports between 1944 and 1945 was concentrated in lend-lease shipments. Both relief shipments and exports for cash or credit increased substantially between the two years.

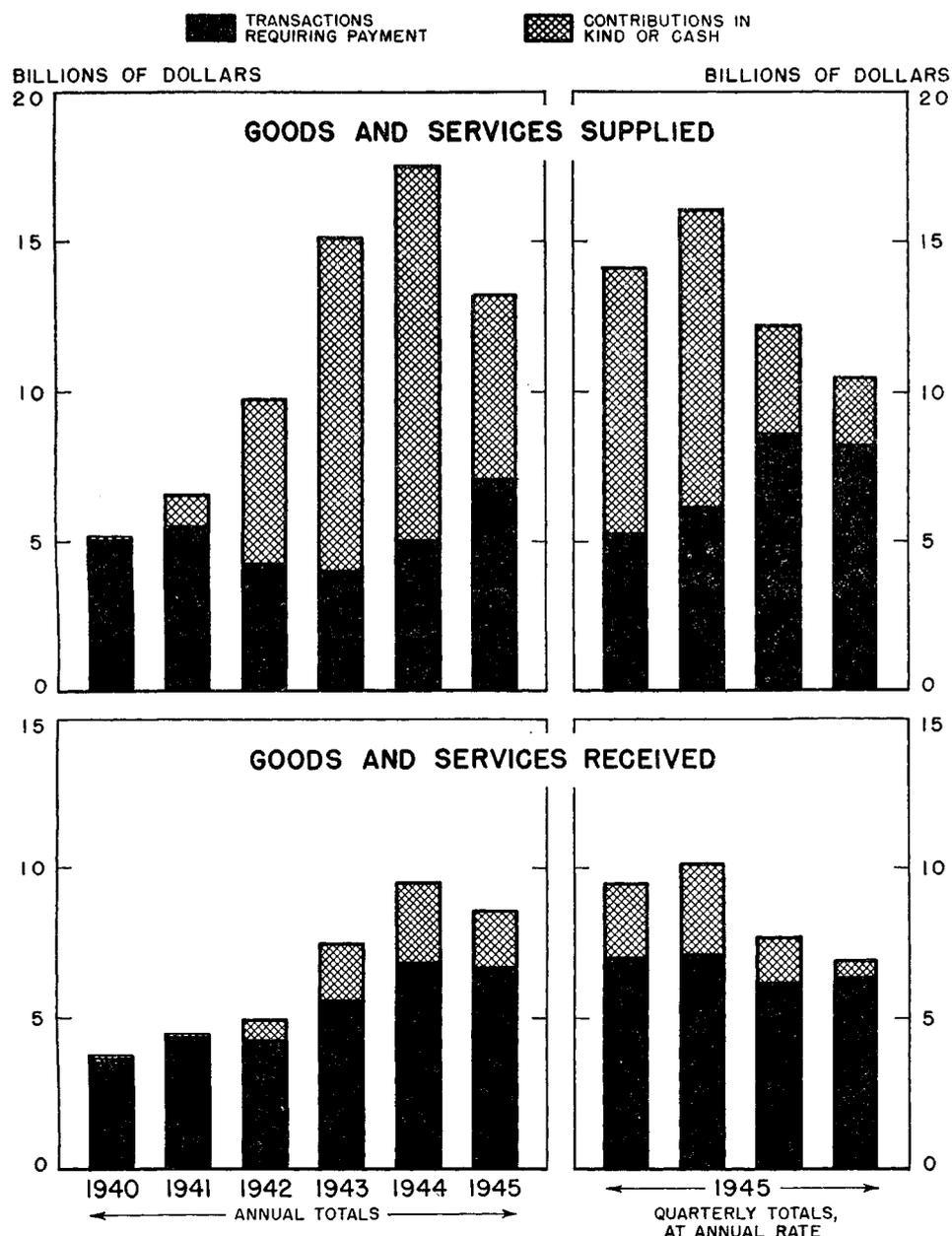
UNRRA shipments grew rapidly during 1945 and were about 12 percent of total exports from the United States in the fourth quarter. In addition, a sizable amount of UNRRA purchases were made from United States-owned surpluses abroad.

**Similarity in Trends**

The trend in total goods and services received from foreign countries in 1945 was very similar to that for goods and services supplied, although the changes were within a smaller range. Receipts were down from 1944—largely because of smaller receipts abroad under reverse lend-lease—and the final two quarters were below the first half of the year.

The value of goods physically imported into the United States was somewhat reduced in the latter half of 1945 but for the year as a whole the total was somewhat larger than the 1944 figure. (See table 15.) On the whole, the quarterly movement of imports does not appear to reflect the increased availability of sup-

**Chart 20.—Goods and Services Exchanged With Foreign Countries**



Source: U. S. Department of Commerce.

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plies abroad and the eased shipping situation.

The quantity of imports last year apparently was not much higher than the 1936-38 average. The higher dollar volume was largely the result of higher prices. Considerable changes from the prewar period were evident, however, in the areas from which our imports were obtained. During the first 9 months of 1945 the western hemisphere supplied approximately two-thirds of the goods brought into this country as compared with less than two-fifths during the 1936-38 period.

### Many Services Obtained Abroad

In 1945 services obtained by the United States from foreign countries are estimated to have exceeded services rendered by about 800 million dollars—including transactions under lend-lease and reverse lend-lease. The largest item in the service category was payment for services to our armed forces on foreign soil. Other transactions were income and expenditures arising out of travel, shipping, and various smaller services, such as communications and insurance.

Expenditures by the armed forces in foreign countries reached a peak annual rate of about 2 billion dollars in the second quarter of 1945, but by the final quarter they were reduced to approximately half that amount. The greater part of these expenditures consisted of spending by troops; the balance was for local labor, transport, quartering of troops, and other services.

Personal expenditures by troops in foreign countries, except occupied countries such as Germany and Japan, have been or will be settled in dollars, whereas the balance of the expenditures of the armed forces, insofar as they were made in allied countries, was largely supplied to us under reverse lend-lease. In former enemy countries, with the exception of Italy, all local currency is provided by the occupying authorities without compensation.

### Large Outflow of Capital

In 1945 there occurred the largest out-

flow of long-term capital from the United States since World War I. This movement was closely related to wartime operations and, as shown by the figures in table 16, was almost entirely financed by the Government.

The principal factors responsible for the large capital outflow were: (1) Credits to cover delivery of lend-lease goods and sale of surplus stocks after VJ-day (estimated at about 850 million dollars); and (2) credits to cover deliveries of civilian supplies from Army and Navy stocks to some of the liberated countries (approximately 900 million dollars).

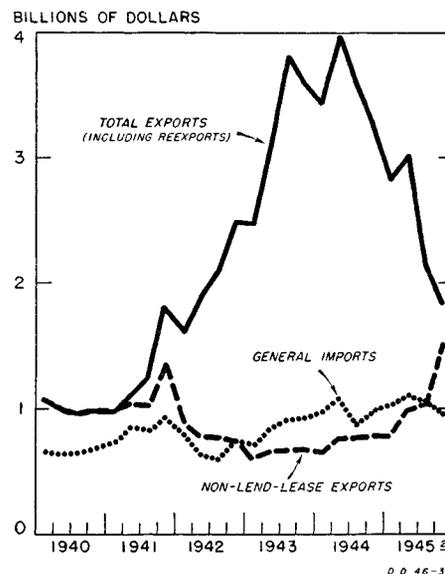
### Loan to United Kingdom

The first class of credits includes 650 million dollars extended in accordance with the provisions of the recent settlement with the United Kingdom for lend-lease, reciprocal aid, surplus war property, and claims. A financial agreement reached at the same time proposed a line of credit of 3,750 million dollars to assist the United Kingdom in financing the anticipated deficit in its balance of payments during the postwar transition period. If approved by Congress, this line of credit will be drawn upon substantially over the next 2 years, although it will be available until the end of 1951.

Credits for the payment of goods in the lend-lease pipeline on the termination date have also been extended to the Soviet Union, France, the Netherlands, and Belgium, while credits have been extended by the Export-Import Bank to cover goods requisitioned but not yet contracted for under the lend-lease mechanism as of VJ-day as well as to cover other types of goods needed abroad.

Civilian supplies furnished by the Army and Navy are not loans in a strict sense. The amount included in the table as capital outflow represents the estimated value of such goods transferred to foreign countries, the governments of which have been, or will be, billed for them. In the absence of definite information regarding the time of payment, the transfer of these goods is here treated as a long-term capital movement.

Chart 21.—Foreign Trade of the United States<sup>1</sup>



<sup>1</sup> Excludes trade in gold and silver.

<sup>2</sup> Includes preliminary data for December.

Source: U. S. Department of Commerce.

### Investment Income Steady

The expanded outflow of long-term capital last year did not cause any rise in income from foreign investments. Preliminary estimates place such income at somewhat more than 500 million dollars in 1945—approximately the level of the several preceding years. Payments to foreigners are estimated at 180 million dollars.

Investment income has been running below the amount received in 1938, chiefly because the elimination of income from enemy-occupied countries has been only partly offset by increased receipts from other countries.

### Addition to Foreign Dollar Balances

As in previous war years, supply restrictions and shortages of shipping space prevented foreign countries from converting into goods and services for their own use all the dollar exchange received from the sale of goods and services to the United States last year. Consequently, there was an outflow of gold approximating 500 million dollars (including additions to gold earmarked for foreign account) and about 1,540 million dollars were added to foreign dollar balances.

If the outflow of gold and the increase of foreign dollar funds during 1945 are examined by quarters (see table 17), it is evident that there was a sharp decline in the latter part of the year. In view of the increased availability of civilian goods in this country and the large accumulated foreign demand for United States merchandise, it is expected that the gold flow will be reversed and that there will be some reduction in foreign dollar holdings before the end of 1946.

### Foreign Trade Prospects

The principal factor of immediate concern in the international economic sit-

Table 15.—Goods Transferred Between the United States and Foreign Countries<sup>1</sup>

[Millions of dollars]

	1943	1944	1945	1945, by quarters, at annual rate			
				I	II	III	IV
<b>GOODS TRANSFERRED TO FOREIGN COUNTRIES</b>							
Total transfer of goods.....	12,975	14,568	11,161	12,260	13,656	10,167	8,560
A. From overseas supplies.....		209	1,379	984	1,564	1,688	1,280
1. Civilian supplies from Army and Navy.....		209	911	764	1,024	1,456	400
2. UNRRA.....			175		240	60	400
3. Other transfers.....			293	220	300	172	480
B. Exports from United States (adjusted).....	12,975	14,359	9,782	11,276	12,092	8,480	7,280
1. "Straight" lend-lease.....	10,219	10,831	4,313	7,748	7,586	1,757	160
2. UNRRA.....			361		166	404	872
3. Other exports <sup>2</sup> .....	2,756	3,528	5,108	3,528	4,340	6,318	6,248
<b>GOODS TRANSFERRED TO THE UNITED STATES</b>							
Total goods received.....	5,375	6,926	6,073	6,654	6,875	5,880	4,884
Goods physically imported into the U. S. (adjusted).....	3,372	3,913	4,130	4,056	4,391	4,198	3,872

<sup>1</sup> Figures subject to revision.

<sup>2</sup> Includes goods procured through lend-lease channels but sold for cash or on credit.

Source: U. S. Department of Commerce.

Table 16.—Long-term Capital Movements <sup>1</sup>

[Millions of dollars]							
	1943	1944	1945	1945, by quarters			
				I	II	III	IV
Net outflow (–) or inflow (+) of:							
U. S. capital:							
Government.....	–32	–175	–1,807	–171	–243	–999	–394
Private.....	+170	+81	–186	–57	–78	–32	–19
Foreign capital.....	+13	+190	–64	–43	+20	–15	–26
Total.....	+151	+96	–2,057	–271	–301	–1,046	–439

<sup>1</sup> Figures subject to revision.

Source: U. S. Department of Commerce.

Table 17.—Gold and Short-Term Capital Movements <sup>1</sup>

[Millions of dollars]							
	1943	1944	1945	1945, by quarters			
				I	II	III	IV
Transfers to foreign (+) or to United States ownership (–):							
Gold.....	+735	+1,305	+506	+159	+124	+194	+30
Short term foreign assets in the United States.....	+1,228	+362	+1,539	+462	+510	+426	+142
Short term United States assets abroad.....	+54	–158	–11	+100	–79	+5	–37
Total.....	+2,017	+1,509	+2,034	+721	+555	+624	+135

<sup>1</sup> Figures subject to revision.

Source: U. S. Department of Commerce.

uation is the almost unlimited need for goods abroad. The extent to which these requirements can be met depends, of course, on the purchasing power available to foreign nations and the supplies available here.

Dollars obtained by foreign countries through the sale of goods and services to the United States will probably show little change in 1946 from 1945. An expected increase in imports from the level of 4,100 million dollars recorded in 1945 will be compensated by a decline in military expenditures abroad. Any rise in foreign purchases will have to be financed through use of accumulated foreign gold and dollar reserves and through loans by the United States.

Gold and dollar holdings by foreign countries are now very large in the aggregate—some 16 billion dollars of gold and 7 billion dollars of short-term dollar balances.<sup>3</sup> In view of the uneven distribution of these assets and their importance as reserves for monetary purposes and for future contingencies, it cannot be assumed that any great part will be drawn upon during the coming year or even over a longer period. Three to five billion dollars is probably the maximum amount of dollar exchange that could be drawn from these sources during the entire reconstruction period without causing foreign countries to adhere to commercial and exchange restrictions contrary to the basic objectives of United States foreign economic policy. Hence, large-scale foreign lending is needed to realize the full contribution which a high volume of international trade and investment can make both to our domestic objective of full utilization of resources

<sup>3</sup> Includes Philippine deposits with the United States Treasury but excludes foreign holdings of United States currency.

and to world economic and political stability.

#### Potential Capital Outflow

Broad provisions have already been made for expanding the future outflow of American capital above the high level reached last year. The aggregate potential amount of loans and credits already authorized or in prospect is more than 14 billion dollars, distributed as follows: (1) Aggregate lending power of International Bank for Reconstruction and Development on basis of membership at end of 1945, not all of which will be borrowed from the United States, 7,600 million dollars; (2) undisbursed funds of the Export-Import Bank as of the end of 1945, much of which is already committed, 3,250 million dollars; and (3) proposed line of credit to the United Kingdom, 3,750 million dollars.

In addition, many observers expect a renewed outflow through private channels, especially in the form of direct investments. There will also be purchases of relief goods by UNRRA, which received an additional appropriation of 1,350 million dollars from the United States after

the initial appropriation of an equal amount was spent or fully allocated.

Although utilization of funds available from foreign gold and dollar reserves and from loans and credits will be spread over a number of years, it is expected that exports in 1946, including UNRRA shipments and goods financed by loans, will substantially exceed the rate established in the final quarter of 1945—7,300 million dollars on an annual basis. For the most part, such an addition to domestic demand will not impinge on supplies for domestic consumption. However, in some instances, the bunching of foreign and domestic orders within a short-time period will create an allocation problem for manufacturers or the Government.

#### Removal of Trade Restrictions

International agreements have been approved which have as their objective the removal of restrictions on international trade and financial transactions. These agreements include the joint statement on commercial policy and the proposed financial agreement between the United States and the United Kingdom and the ratification of the Bretton Woods Agreement by 35 nations.

As part of the loan agreement the United Kingdom, in effect, engages: (1) To abolish within one year the present sterling area arrangements with respect to current transactions; (2) to proceed at once to negotiate a settlement with countries holding blocked sterling balances; and (3) not to discriminate against the United States in any quantitative import controls it may impose.

The understanding on commercial policy reached with the British and the impending establishment of the International Monetary Fund and the International Bank for Reconstruction and Development are more general steps affecting international commercial and financial policy. Under the Bretton Woods Agreement, exchange restrictions on current transactions are to be abolished within 5 years. Insofar as the United Kingdom is concerned, this period is shortened to 1 year by the agreement noted above.

The undertaking to enter into negotiations for the relaxation of trade barriers of all kinds will have long-run rather than immediate significance. An International Trade Organization is being formed within the framework of the UNO to foster and promote expanded international trade on a multilateral basis.

#### Prices and Control of Inflation

The upward pressure on the price structure continued throughout the past year, with only minor exceptions. After the surrender of Japan a slight weakness occurred in the prices received by farmers and in the retail prices of foods but this was only temporary. In general prices continued to press against ceilings, with strong indications—and tangible evidence in those few instances where controls were absent or were re-

moved—that they would go considerably higher if permitted.

#### Pressure on Prices Still Strong

The strong pressure of demand as seen in the rise in consumer purchases after the war's end has been amply noted above. The gradual increase in civilian supplies was hardly adequate—and will remain inadequate for some time to stem the force of such insistent demand.

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With the continuance of the sellers' market, there was little likelihood of competitive forces bringing a contraction of prices, where production costs would permit it. If anything, the experience in the last half of 1945 contributed additional evidence of the need for continuation of controls to prevent wasteful dissipation of our resources in an inflationary boom which could have but one result—collapse.

The price outlook, as it appeared shortly after the end of the war, was discussed at some length in the article on "The Postwar Price Structure" which appeared in the November 1945 issue of the SURVEY. In conclusion, this article spoke of the danger—but by no means inevitability—of a spiral of rising prices because of the immediate pressure of deferred demands, and because of the time necessary to achieve large-scale output of civilian goods and services. But the analysis was clear that the existing price structure offered ample incentive to production, even though reasonable advances in basic wage rates were made.

By the time the article was published there were already indications of a change in the attitude of both consumers and industrial buyers which emphasized the need to curb inflationary tendencies until full-scale civilian production could be achieved. That attitude was evident in the prices of the few staple commodities, such as cotton and rye, that were not controlled. It was felt in the commodity futures markets, in the sharp further increase in stock prices and the continued rise in farm real estate and urban residential property. Some of these price changes are summarized in the following table.

#### SELECTED PRICE INDICES

[December 30, 1944=100]

	Aug. 14, 1945	Sept. 4, 1945	Dec. 31, 1945
Cotton .....	103.7	103.2	112.9
Rye .....	123.4	123.7	153.5
Average of commodity futures (Dow Jones) .....	102.2	101.7	108.6
Average of 90 stocks (Standard-Poors) .....	110.4	116.8	130.6

#### Price Control Dominant

Nevertheless the dominant feature of the price picture continued to be the exercise of control over prices, as provided by existing legislation. Changes in the composition of production and resumption of long-restricted output under new conditions posed additional problems for administrative decisions in this connection. The strains involved in the execution of price control policies became evident as the speculative tendencies gathered momentum after the termination of the war, enhanced perhaps by the uncertainty as to how long the hold-the-line authority would be continued. Granting all of the practical difficulties, however, the need for continuation of controls was clearly evident.

#### Raw Materials Prices Fail to Weaken

Prices received by farmers rose gradually during the first 7 months of the year. There was slight weakness beginning even before VJ-day but by the year-

end the average was nominally above the war-end level. The average for the year was about 4 percent above 1944 and the fourth quarter was up by a similar percentage from the previous year.

In general, the nonagricultural raw materials prices remained at their ceilings throughout the year. There were some upward adjustments of those ceilings and some increases where the ceilings did not apply. After VJ-day there was not even the temporary weakness which had marked the expectation of early victory in the fall of 1944. The BLS raw materials price index for the year was 3 percent above 1944 and at the year-end it was 4 percent above the previous December.

A slightly rising trend occurred in wholesale prices of manufactures and semimanufactures throughout the year. The BLS combined index of wholesale prices for December 1945 was 2 percent above the preceding December.

#### Most Subsidies Retained

The various subsidies on the production and processing of farm products were continued in the total amount of 1½ billion dollars for the year. These subsidies were designed to stimulate essential production at a smaller cost to the ultimate consumer than the alternative price increases. As of August 29, the Office of Price Administration estimated that their elimination would have raised retail food prices by 9 percent and the cost of living by 3.6 percent.

At the end of October the subsidy of 5 cents per pound paid to butter manufacturers was removed and the price increased by about that amount. Other minor subsidies were also eliminated by the end of the year but the major programs were still in effect.

#### Consumers' Prices Rise Further

The BLS consumers' price index rose very slowly over the first 7 months and most of that increase was held over the balance of the year. The average for all items naturally differs from the somewhat diverse movements of the components. As in the past, rent was the stable element in the index since it was the most effectively controlled. There was here, as elsewhere, however, some difference in the services secured for the rent payments.

All the other major groupings showed an upward drift in at least the first 7 months of the year. Retail food prices started off the year by moving downward but they rose considerably in the second quarter, reaching an average in July only two points below the wartime peak.

The swing in food prices during this period was contributed mainly by changes in fresh fruit and vegetable prices. The break in prices for these products came as a result of record crops accompanying the release of large supplies of canned fruits and vegetables for civilian use.

The upward pressure of other food prices, however, brought back the food price index by the end of the year to approximately the July high.

Both clothing and housefurnishings showed persistent although gradual

movements throughout the year. Housefurnishings especially registered almost a continuous month-to-month rise. On the other hand, although the upward movement in clothing is characteristic of the year as a whole, there was some slowing down of the rise in the last 5 months. The latter is probably attributable to the inception of controls to direct a larger part of civilian fabrics to lower-priced lines. In general, the upward pressure of prices during the year was brought about by shifts in the price lines made available rather than by relaxation of price controls.

In judging the change in levels of consumers' prices during the war, it is well to keep in mind that the BLS index was designed to measure the change in prices for a given volume of purchases made by moderate-income families in large cities. From the standpoint of aggregate consumer expenditures, however, such an index understates the decline in the purchasing power of the consumer's dollar.

On the basis of the adjustments suggested by the Presidential Committee on the Cost of Living, the increase from December 1940 to December 1945 was 35 to 38 percent, instead of 28 percent. Even these adjustments do not cover all of the unmeasurable deterioration of quality and service and the inconveniences to which the consumer has been subjected.

A comparison of the increase in consumer expenditures for food and clothing, with the apparent change in the physical quantities available to civilians, gives some indication of the decline in the purchasing power of the dollar during the war years. In the case of food, consumer expenditures in 1945 were almost double those in 1940. In contrast, the Bureau of Agricultural Economics reports only a nominal increase in the physical quantity of food available to civilian consumers.

The latter estimate, however, does not cover the processing of those foods. For example, there may have been larger consumption of flour in the form of bakery products. Nor does it allow for the large increase in meals eaten away from home. But if allowance is made for the deterioration of conveniences and services connected with restaurant sales and retail distribution of food, the conclusion seems warranted that the average consumer obtained very little more in 1945 than he did for half the expenditure in 1940.

The index of retail food prices, on the other hand, increased 44 percent between 1940 and 1945. The adjustments suggested by the Presidential Committee would bring it to over 50 percent. Even with these adjustments, however, it is evident that the index excludes or only partially includes intangible or unmeasurable factors such as black-market sales, trading up to higher-priced items or higher-priced stores, and the general curtailment of retail delivery and other services.

Consumer expenditures for clothing in 1945 were more than double those in 1940. Again the available evidence suggests that there has been comparatively little increase in physical volume. Special in-

dices of the output of shoes and clothing for civilians compiled by the Federal Reserve Board record an actual decline from 1940 to 1944. While the data are not available in the same form for 1945, it seems probable that there was no net increase for the year.

The index of retail clothing prices increased 43 percent from 1940 to 1945. The adjustments suggested by the Presidential Committee would raise the figure nearer 60 percent, but this is still far short of the price rise implicit in the estimates of consumer expenditures.

In other consumers goods there was the same tendency, particularly in those areas where controls were relatively difficult or impractical—jewelry, for example. The spurt in consumer expenditures in the face of limited supplies of goods in the fourth quarter suggests that the tendency continued and probably accelerated after VJ-day.

#### Rise in Housing Costs

Although price controls have been more effective over residential rents than in food and clothing, it is nevertheless true that the rise of less than 4 percent in the index from 1940 to 1945 understates the increase. Furthermore, the index of residential rent payments does not presume to cover the tendency to withdraw single family dwellings from the rental market in order to sell them at sharply rising prices.

According to a consensus of informed sources, the prices of residential real estate for the country as a whole increased by a third to a half between 1940 and 1944. The evidence points to a continuing of this trend in 1945. A survey for the Washington area shows a further increase of 12 percent between April 1944 and April 1945. According to a similar survey of Los Angeles, prices rose an additional 12 percent from October 1944 to April 1945 and 5 percent from April to October 1945. The implication of these changes have been discussed in the section on construction.

#### Cost-Price Changes

There were further increases in production costs during the year but the pressure of demand on supply was the weightier factor in the rising trend of prices. There were comparatively few exceptions to the generalization that prices were ample to cover costs and leave a satisfactory margin of profit. This was true of farmers and unincorporated businesses as well as corporations.

An evaluation of the 1945 cost-price relations can best be gathered by comparison with the conditions in 1941, a year in which supply-demand-price relationships were relatively free of government controls. In that year labor costs amounted to one-half the market value of all private production. Between 1941 and 1945 the average intra-industry increase in gross hourly earnings was between 35 and 40 percent. This covers both wages and salaries and includes overtime premiums, bonuses, upgrading and various other adjustments, as well as changes in wage rates.

However, the increase was partially offset by the spreading of overhead costs over a larger volume of business, thereby reducing the cost per unit of output. Since these overhead costs amounted to 18 percent of the total value of private production in 1941, and since on balance they had increased very little by 1945, the saving was substantial.

The extent of the resulting increase in the cost per unit of output is obscured by the difficulty of measuring changes in output per man-hour under wartime conditions, and by the inextricable mixture of war and civilian goods production in 1945. It is possible, however, to indicate its significance relative to the increased prices for civilian goods.

Assuming no increase in productivity in civilian goods lines in 1945 as compared with 1941, and allowing the self-employed the same increase in hourly earnings as the wage and salary workers, the dilution of overhead costs would result in a net increase of between 25 and 30 percent in production costs. This is appreciably less than the actual increase in prices paid by consumers.

By the end of the year the uppermost question was the prospective relation of costs, prices, and profits in 1946. These relationships were of considerable concern to businessmen in their calculations. They were a major item of dispute in connection with demands for wage increases. They also had a bearing on Government controls over prices of re-conversion goods. Without getting involved in the problems of any particular industry, it is possible to indicate the major influences affecting these cost-price-profit relationships for the economy as a whole and their relative significance.

Important basic wage increases have already been granted in the last few months, or are probable in the near future. On the other hand, there is the probability of a further decline in premium pay for overtime and the partial elimination of various other wartime increases which are not frozen in the basic wage schedules. The net effect on labor costs will also depend on the output per man-hour. A general increase in productivity can be expected in the long run but there is the question as to how much, if any, gain there will be in 1946.

Since no one of these three developments can be measured precisely in advance, any conclusions as to labor costs in 1946 must be in general terms. It is evident, however, that the net increase in unit costs for the economy as a whole is likely to be less than the increase in basic wage rates.

With a smaller volume of business, the overhead costs per unit of output will be more than in 1945. More important, however, is the repeal of the excess profits tax. This will permit a narrowing of the spread between costs and prices without impairing net profits after taxes.

These and other factors in the cost-price-profit relationship were discussed at length in the article on "The Postwar Price Structure" mentioned earlier. The conclusion reached at that time still holds. Increases over war-end basic wage rates averaging about 10 percent for the economy as a whole would not require a further increase in average prices paid by consumers. On the contrary, they would permit the elimination of some of the intangible and unmeasurable wartime increases in prices, bringing these prices more nearly in line with the official index.

## Financial Developments

#### Increased Need for Money

The expansion of currency, deposits, and securities was an outgrowth of the magnitude of the war financing program and of the methods that were followed. It should be recognized, however, that an appreciable part of the increase occurred in response to the growing needs of the economy for circulating media and other liquid assets in line with the rise in business volume and income. The gross national product more than doubled between 1940 and 1945 and income payments showed roughly the same relative growth.

Yet it is abundantly clear that the monetary expansion was more than commensurate with the additional requirements and, as a result, the end of the war found the economy in an exceptionally liquid position. Not only did cash and near-cash assets increase at a faster rate than did national economic activity, but they continued to grow during 1945—even after the tide of business activity had been reversed. Moreover, it is well known that part of the wartime liquid asset accumulation by businesses and individuals represented "savings by

Personal and business holdings of liquid assets—bank deposits, currency, and Government securities—aggregated about 225 billion dollars at the close of 1945. This represented a tripling of personal liquid asset holdings since the end of 1940 and an even more rapid expansion of business holdings.

The distribution of these assets is summarized in the following table (figures are rounded to the nearest billion dollars and will not necessarily check with totals):

	Increase		
	End of year 1940	1945	1940 to 1945
Personal holdings, total.	48	146	97
Currency .....	5	21	16
Demand deposits.....	9	24	15
Time deposits.....	25	45	20
U. S. Gov't. securities..	10	56	46
Business holdings, total.	22	80	58
Currency .....	2	5	3
Demand deposits.....	16	38	22
Time deposits.....	2	3	1
U. S. Gov't. securities..	3	34	31

Source: Board of Governors of the Federal Reserve System.

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default"; that is, savings which resulted because of supply shortages, price controls, and other restraints on the volume of cash outgo.

**Savings Balanced by Federal Borrowing**

That businesses and individuals were able to accumulate such large sums during the war period is a reflection of the heavy volume of borrowing undertaken by the Treasury to finance the war program. In other words, while businesses and individual consumers paid out in purchases and in taxes much less than their current incomes, the Federal Government disbursed considerably more than its income from sources other than borrowing.

The relative importance of taxes and loans as sources of Federal funds is shown in chart 22. During the calendar years 1941-1945, the Treasury raised a total of more than 360 billion dollars, of which 155 billion (somewhat over two-fifths of the total) represented taxes and miscellaneous receipts, and the balance, borrowing.

From the standpoint of the total amount of funds raised as well as of the volume of securities issued, the biggest year was 1944. While tax receipts rose to an all-time high of 47 billion dollars in 1945, the amount of borrowing declined by almost one-third and the aggregate amount of funds raised was reduced from over 100 billion in 1944 to 88 billion last year.

Not all of the 360 billion dollars raised by the Treasury during the 1941-45 period was paid out for purchases of goods and services and to satisfy other Government obligations. Part of these funds were used to build up the Treasury's cash balance from 2 billion dollars at the end of 1940 to 26 billion dollars at the close of last year. The recent Budget Message indicated that this balance will be drawn down substantially during the next year and a half, thus making possible a reduction in the public debt despite continued budget deficits.

**Interest Rates Continue Downward**

The heavy borrowing requirements of the Federal Government did not have any marked effect on the interest-rate structure. The war was financed at low and stable rates. The variation that did occur was toward a further lowering of yields as a result of the monetary management policies of the Treasury and Federal Reserve authorities.

Taxable Government bonds maturing in over 15 years were yielding about 2.3 percent at the end of 1945, as compared with 2.5 percent a year earlier. The computed annual rate on the public debt remained slightly below 2 percent. The President in his January message gave support to a policy of continued low rates when he said: "Low interest rates will be an important force in promoting the full production and full employment in the postwar period for which we are all striving."

**Rising Tax Ratio**

Tax receipts were slow in responding to the rising cash needs of the Treasury in 1942. As a result, not much more than a fourth of the total funds raised came

from taxes in that year. However, new tax legislation and rising business activity and incomes soon resulted in a sharp boost in Federal tax receipts, and the ratio of taxes to total funds raised advanced to 40 percent in 1943, 45 percent in 1944, and almost 55 percent in 1945. As already noted, the ratio of taxes to total funds raised was somewhat over 40 percent for the 1941-45 period combined.

**Bank Borrowing Heavy**

Throughout the war period one of the cornerstones of the Government's financial policy was to keep borrowing from banks at a minimum in order to limit the expansion of bank credit and the consequent addition to bank deposits and currency. The war loan campaigns were directed primarily to nonbank investors and, in addition, banks were barred from purchasing some security issues.

Despite these measures, there has been a sizable expansion of bank credit based on Government securities. This expansion was particularly heavy during 1942-44 when direct and open market purchases by commercial banks and Federal Reserve banks approximated 25 billion dollars a year.

For the years 1941-45 combined, the aggregate of bank purchases of United States Government obligations was about

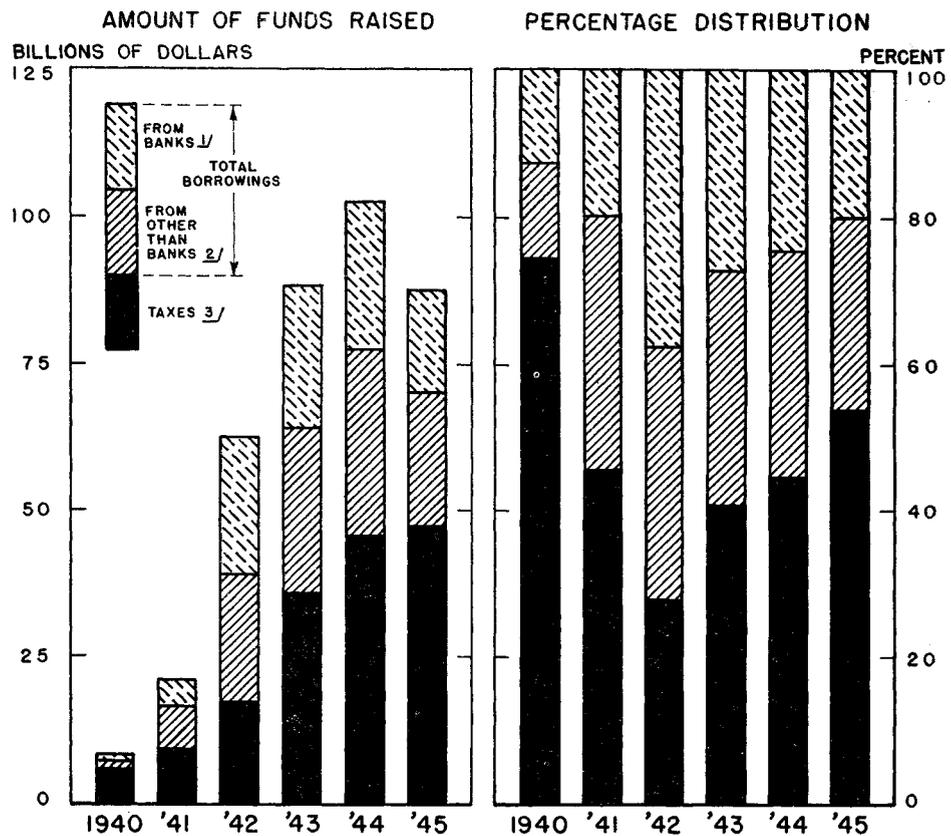
95 billion dollars. This represents more than one-fourth of the total funds raised and compares with slightly over 110 billion dollars of public borrowing from nonbanking sources. As of the end of last year, Government obligations comprised three-fourths of all bank loans and investments (excluding Federal Reserve banks).

**Expansion of Liquid Assets**

The bank and nonbank borrowings by the Treasury provided the basis for the expansion of liquid asset holdings shown in chart 23 by type of asset and by class of holder. Asset holdings by banks, insurance companies, building and loan associations, nonprofit associations, foreigners, and governmental bodies and agencies are not included in the chart.

The asset composition of the holdings reflects the needs and preferences of businesses and individuals—shaped to some extent by the loan campaigns conducted by the Government. Half the combined increase of about 155 billion dollars for the 5-year period took the form of savings bonds and other Federal obligations. Somewhat less than one-fourth represented an expansion of demand deposit holdings, and the balance of the increase was split nearly equally between currency and time deposits.

**Chart 22.—Sources of Treasury Funds, by Calendar Years**



<sup>1</sup> Includes commercial and Federal Reserve banks.  
<sup>2</sup> Includes private nonbank investors and State and local governments. U. S. Government agencies and trust funds are excluded.  
<sup>3</sup> Gross budget receipts before appropriations to Federal Old-age and Survivors' Insurance Trust Fund. Some miscellaneous nontax receipts are included.  
 Source: U. S. Treasury Department.

Relative to the amounts outstanding at the beginning of the period, the gains were far greater for currency and Government securities than for deposits.

**Factors Favoring Asset Accumulation**

The distribution of the ownership of these assets is the net result of the incidence of Government spending and of the disposition of the funds by the recipients. Several factors favored increased holding of cash and other liquid assets during the war period. The most important were the high incomes and the restricted supply of various producer and consumer goods. The role of price ceilings, rationing, priorities, and allocations should also be stressed in this connection, since these controls kept down dollar outlays by restraining the rise in prices, while, at the same time, permitting high profits even after taxes.

Business generally was unable to make capital expenditures equivalent to current allowances for depreciation, including the accelerated amortization of emergency facilities. This situation, combined with the sharp rise in tax accruals, the circumspect dividend policy of corporations despite increased earnings, and the practice of setting up reserves for postwar contingencies, was largely responsible for the rise in business liquid asset holdings shown in the lower right panel of chart 23.

**Net Working Capital Nearly Doubles**

Working capital data for corporations, summarized in the following table, show that three-fourths of the expansion in liquid asset holdings, was reflected in an addition to net working capital (figures are in billions of dollars):

	Dec. 31, 1940	Sept. 30, 1945
<b>Current assets:</b>		
Cash and U. S. securities.....	15	46
All other.....	45	53
<b>Total .....</b>	<b>60</b>	<b>99</b>
<b>Current liabilities:</b>		
Income tax liabilities.....	3	15
All other.....	30	33
<b>Total .....</b>	<b>33</b>	<b>48</b>
<b>Net working capital.....</b>	<b>27</b>	<b>51</b>

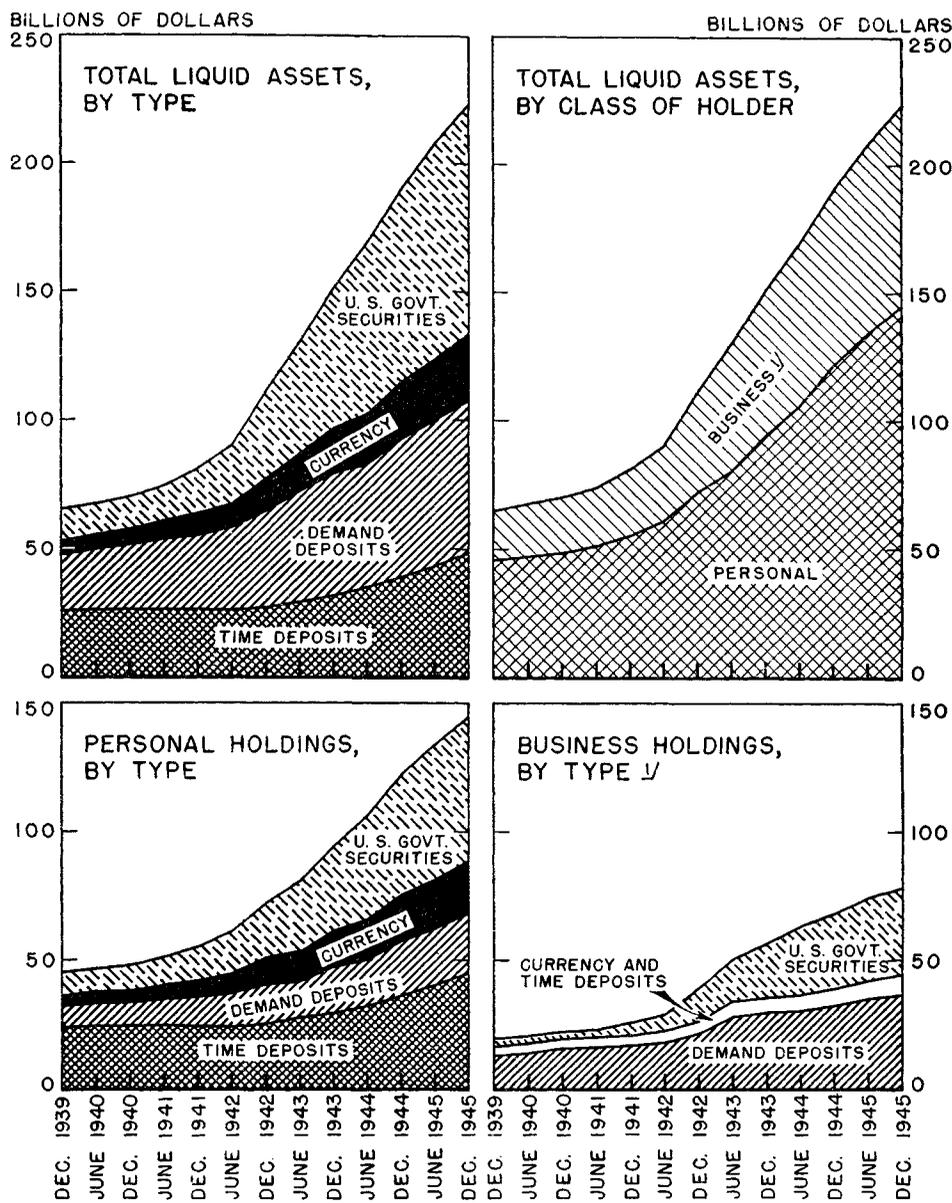
Source: Securities and Exchange Commission.

Indicative of the strong cash position of corporations is the fact that cash and Government security holdings as of last September (the latest date for which data are available) were sufficient to cover practically the total of current liabilities. At the end of 1940 these assets were less than half liabilities. While comparable estimates are not available for noncorporate business, information at hand suggests that these businesses have shown an even greater improvement in their current position.

**Large Volume of New Money Issues**

The lush financial condition of business generally has been accompanied by a sizable increase in corporate security issues. While the bulk of this increase represents the much larger volume of re-

**Chart 23.—Liquid-Asset Holdings of Business and Individuals**



D. D. 46-54

<sup>1</sup> Includes holdings of corporate and noncorporate businesses other than banks, insurance companies, building and loan associations, and nonprofit associations. Holdings of farmers and professional persons are included in "personal."

Source: Board of Governors of the Federal Reserve System.

fundings to take advantage of the favorable market for corporate bonds, new money issues of stocks in 1945 were substantially higher than in any year since 1930.

The stepping-up of new capital issues at a time when the great majority of firms had ample liquid resources reflected several influences—increasingly favorable financing terms, the rising number of new firms entering into production, and the fact that companies no longer booked up with war orders were moving ahead with plans for expansion.

**Comparability of Savings Estimates**

Wartime trends in income payments, consumer expenditures, and savings were discussed in an earlier section of this

review. On the basis of the estimates there presented, the accumulated savings of individuals for the years 1941-45 amount to about 150 billion dollars.

Certain incomparabilities between this estimate and the estimates of personal liquid asset holdings analyzed in this section should be stressed. Not only do the individual savings figures include savings in non-liquid forms—insurance, home ownership, debt liquidation—but also the savings of partnerships and individual proprietorships.

The Federal Reserve estimates of liquid asset ownership attempt to segregate holdings of the latter groups from holdings of individuals for nonbusiness purposes. Admittedly, such a division is tenuous—if for no other reason than that

many proprietors fail to make such a distinction in their accounts. Nevertheless, a rough allocation of noncorporate holdings between business and personal funds is desirable for analytical purposes, since only the latter class of funds is available for consumer disposition. The Federal Reserve estimates for unincorporated business include all liquid assets reported in the financial statements of these concerns. "Mixed" deposit accounts used for both personal and business expenses are assigned to business.

It should be noted, however, that the estimate of personal holdings is not a clean figure. Included in it are business holdings of farmers and professional persons and, in addition, private trust funds. At the end of last year, trust funds administered by corporate trustees held about 17 billion dollars in liquid assets.

#### Liquid Savings Four-Fifths of Total

In order to compare the estimates of liquid asset ownership with accumulated savings of individuals it is necessary to combine personal and unincorporated business holdings. This procedure gives an increase in liquid assets between 1940 and 1945 (year-end dates) of almost 120 billion dollars, as compared with accumulated savings of 150 billion dollars in these years.

Such rough calculations indicate, therefore, that four-fifths of the current savings of individuals (including unincorporated business) were in liquid form. Close to half these liquid savings represented Government security purchases and the balance was almost equally split among demand deposits, time deposits, and currency.

#### Significance for Postwar Demand

Consumers and business are entering the postwar era in a highly liquid asset position. Obviously not all of the increase in cash and security holdings will be spent in the period ahead because much of the accumulation is a normal accompaniment of increased business activity and higher prices. In other words, wartime savings would have been large even if goods had been available in ample quantities, because of the persistent tendency for savings to increase with the growth in income.

Under conditions of high income, holders of liquid assets will attempt to maintain much of the addition to their capital. Nevertheless, the "abnormal" portion of current asset holdings is substantial and represents a potentially large increment to postwar demand.

#### Encouragement to Capital Outlays

The growth in business holdings reduces, but by no means eliminates, the necessity of firms for recourse to the banking system or the capital market for funds. Nevertheless, borrowing will still be important as a source of business funds because of the requirements of new firms and the inability of individual companies to meet their financial needs wholly from internal sources.

Businesses now have on hand the means of financing large capital outlays over and above those that can be financed from funds being continually derived from current operations. This situation should encourage business investment—there is undoubtedly much less hesitance to use funds already at hand for business expansion than to assume debt obligations.

The extent to which the existing balances will actually spur new investment will depend partly on price developments—after the last war much business cash was diverted to inventory buying and speculative purposes—and partly on the business manager's appraisal of the long-term outlook for sales and of the need for capacity expansion.

#### Spensible Reserve for Consumers

One of the chief factors which will shape the disposition of consumer savings is the level of production and employment that is maintained. With a high national income consumers will not need to rely heavily on their savings accumulation to finance their purchases even though these purchases are inflated by deferred demands. This is not to say that individuals will refrain from dipping into their cash and security holdings, but this tendency may be more than offset by additions to asset holdings as a result of savings out of current income.

It is important to note that the savings accumulation can have a favorable effect on postwar markets even if it is not used directly to bolster consumer spending. The existence of a reserve of liquid assets may act as a catalyst, encouraging a higher rate of spending out of current income. This result would follow if consumers viewed their current reserves as adequate against future contingencies and gradually adjusted their spending habits accordingly.

The savings accumulation will enter into the market more directly should a substantial volume of unemployment develop. Under such conditions many families will be forced to use savings for current living expenses.

The volume of savings likely to be used for such purposes is not as large as might at first appear. Although the dispersion of the ownership of savings during the war period was undoubtedly

greater than under more normal conditions, it is nevertheless true that current asset holdings are still heavily concentrated in the numerically smaller upper-income groups. Under depressed business conditions, however, the necessity for dissaving to meet current living expenses will be greatest among wage earners, many of whom as individuals may not have accumulated any sizable reserve of war bonds and cash during the war period.

In addition to dissaving forced by unemployment, some additional demand for housing and durables, on the part of families not so affected, would be stimulated by the existence of a large reserve of accumulated savings.

#### Comparison With Earlier Period

The existing volume of cash, deposits, and liquid securities is often described as providing the seeds for an inflationary boom and collapse such as was associated with previous postwar periods. A disruptive inflation is, of course, a real possibility, but is by no means inevitable. This can be seen by two points of contrast with the experience after the last war. First, most price controls were removed almost immediately after Armistice Day whereas, today, control legislation exists until the middle of this year and a further extension has been recommended by the President.

Secondly, after World War I there was only a moderate expansion in production to meet the enlarged demands of business and consumers. But because of the large increase in productive capacity during the recent war, industry is now able to produce a much larger and more rapid expansion in the flow of goods to consumer. Thus there is at hand the means for combatting the pressure for inflationary price rises.

## New or Revised Series

### Index of Retail Prices of All Commodities: Revised Data for Page S-3<sup>1</sup>

[1935-39=100]

Month	1939	1940	1941	1942	1943	1944
January.....	99.2	99.7	101.9	118.5	130.1	135.3
February.....	98.6	100.3	101.9	119.8	130.5	135.0
March.....	98.4	99.8	102.8	121.8	132.6	135.1
April.....	98.3	100.0	103.8	123.1	134.1	136.3
May.....	98.1	100.1	104.9	124.0	135.2	137.0
June.....	98.0	100.6	106.6	124.8	135.0	137.5
July.....	98.2	100.5	107.8	125.7	134.2	138.2
August.....	98.0	100.2	108.9	126.2	133.9	138.6
September.....	100.3	101.1	111.3	126.5	134.7	138.9
October.....	100.8	101.4	114.8	127.8	135.2	138.8
November.....	100.5	101.3	116.2	128.8	135.1	139.0
December.....	99.9	101.8	116.7	129.7	135.5	139.6
Monthly avg....	99.0	100.6	108.3	124.9	134.0	137.6

<sup>1</sup> Compiled by the U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce. The index represents the movement of prices at retail stores and is based upon data collected by the U. S. Department of Labor and other agencies. For a description of the index, see August 1943 Survey, p. 28. Minor revisions have been made in the figures published in that issue. Only annual data are available prior to 1939 as follows: 1929, 120.9; 1933, 86.5; 1935, 97.6; 1936, 98.9; 1937, 103.5; 1938, 101.0.

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