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Prometheus Unbound

At the turn of the year it is only natural to pause for a look backward over the developments of the year just past and a look forward to the situation dimly taking shape in the future. This urge to survey both past and future was particularly strong as 1946 faded into 1947, for in many ways 1946 was a year of extraordinary importance.

Last January it was said in this *Review* that "the year 1945 has ushered the world, the nation, and the Sixth District from the stern but well-defined objectives of war into a confused and uncharted future." One year of that future is now a part of the past, and it is possible in retrospect to note the currents and countercurrents that have caused the confusion so clearly visible last January.

Though it has become trite to say that 1946 marked the end of one era and the beginning of another, the facts behind the statement are anything but trite. They represent a movement almost unique in modern times—the effort of a great industrial nation to shift from a controlled economy back to a free economy. For at least a century the tendency in most modern states has been in the direction of increasing governmental control over economic life as economic life has become more complex. This tendency received a particularly strong impetus in the world-wide depression that began in 1929, and it gained greater strength during the war years. No government even tried to wage war on the economic basis of a free market. All economies, this country's along with all the rest, were controlled from top to bottom so that their full power might be directed toward war objectives.

In other lands the first year of peace saw little weakening of the state's power over economic life. On the contrary, the rest of the world showed a marked tendency to enlarge the area of state control and to limit in scope the forces of private business and further restrict their operations. In the United States the situation was quite different. Unlike other nations, the United States entered the first year of peace with the largest and most productive economic machine in all history, an enormous industrial plant wholly undamaged by war. Its agricultural output has increased a third, despite wartime shortages of men and machinery. Its labor force, which was soon to be augmented by the return of 10 million veterans, was large and highly skilled. Untapped credit resources in the banks and large accumulations of funds in the hands of businesses and individual persons provided a potential incentive to the production of goods by which the capital could be replaced and expanded and by which the long-deferred demand for consumers' goods, nondurable as well as durable, could be satisfied. In short, the United States moved into its first year of peace possessing all the ingredients of a more or less sustained boom. Under these circumstances the tradition of free enterprise was bound to assert itself. Thus it is that now, almost alone among the nations of the world, the United States is endeavoring to reverse the trend of recent years and to make the difficult transition back to a free economy.

In a free capitalistic society the expenditure by business and individual persons of the purchasing power at their disposal provides the motive power for all economic activity. The direction that production, together with all other phases of economic activity, takes is determined by the way in which those funds are spent. At the end of the war the country was in some respects face to face with a dilemma. The methods of financing the war had generated unprecedented quantities of purchasing power throughout the nation, but the retention of price controls after production controls had been relinquished prevented, for better or worse, the driving force of this purchasing power from finding what would have been its normal expression.

It was inevitable that every group should begin to clamor for the removal of at least those controls which seemed to prevent it from exercising its economic freedom. Consumers, not always fully aware that production takes time, were baffled by the continuing shortages of goods. Sellers fretted under price controls that prevented them from taking full advantage of the current sellers' market. Labor, feeling cramped by wage-stabilization orders in a period when the demand for it was strong and when prices were inching upward, exploded in a wave of strikes. Manufacturers, faced with rising labor and raw-material costs and inflexible price ceilings on their products, sometimes showed a reluctance to produce.

Everyone tended to blame the other fellow for the impasse into which the economy seemed to be drifting. Manufacturers blamed labor for interfering with production by strikes and by unreasonable wage demands. Labor blamed manufacturers for raising prices beyond a point justified by wage increases alone and for thus, in effect, reducing the real income of workers. Legitimate merchants blamed the black market for draining off available supplies of goods so that they had only empty shelves to show their customers. Manufacturers and merchants together blamed the ineptness of the OPA for the black market. Republicans blamed the Democrats for allowing the Government to continue its interference with the freedom of the market, and Democrats accused the Republicans of conspiring to bring the whole system of controls into disrepute by means of unworkable laws. Even the friends of governmental controls were beginning to despair that the snarl could ever be untangled by any governmental action.

Businessmen believed that the only feasible escape from the impasse was the drastic relaxation or the abolition of all controls. As Prometheus in Greek legend, who stole the fire of heaven to bring comfort to men, was chained to a rock where his vitals were gradually devoured by the eagles of the angry

god Zeus, so in the thinking of the business community the economy, which brings well-being to men, was fettered by innumerable emergency laws while its vitals were being devoured by a host of Government agencies. To perform its proper task, it was insisted, the economy must be unchained.

On its political side, therefore, the story of 1946 is the story of a relaxation of governmental controls. On the economic side, it is the story of the way the nation responded to the increasing freedom it was regaining.

Buffeted by wave after wave of pressure and recrimination, the Government's wage-price-stabilization program gave way at an increasingly rapid tempo as the year wore on. Little by little wage ceilings were raised; the rationing of most commodities was ended; in midsummer price controls were allowed to lapse, only some of them being restored later and those only for a short time; by December almost all prices had been decontrolled. To all intents the end of 1946 found the United States operating on the basis of a free economy — an economy free, at least, of external restraints although not necessarily free of all restraints. Restraints arising within the economy through monopolistic practices and agreements can be just as prejudicial to the working of a "free economy" as external restraints imposed by government.

The confusion that accompanied its release and the clamor of conflicting groups that sometimes bordered on hysteria, as it did at the time of the railroad strike in May and during the coal miners' strike in November, can obscure for many people the very substantial accomplishments of 1946. Actually the past year was in many ways as notable for achievements as was any year during the war.

To begin with, the possibility of achieving a condition of full employment, expressed as a pious hope for "sixty million jobs" in 1945, practically became a reality in 1946. The labor force that numbered 62.7 million in the fourth quarter of 1945 had fallen only to 61.2 million by the third quarter of 1946 and afterward even increased slightly. The number of unemployed, which stood at 1.7 million in the fourth quarter of 1945, in the fourth quarter of 1946 amounted to only about two million, an insignificant proportion of the labor force.

The Federal Reserve seasonally adjusted index of industrial production, with the 1935-39 average as 100, which reached its highest point, 247 percent of the base period, in October and November 1943, fell irregularly until it reached a low of 152 in February 1946. After that time it began to climb until it stood at the postwar high of 182 in October and November. Because of the coal strike, it is probable that a decline occurred during December.

That component of the industrial-production index which had the greatest effect upon the course of the index was durable goods. It reached its low point, 138, in February when the steel strike was having full effect. By November, however, it had climbed to about 214 against 250 on V-J Day. For the year 1943 it was 360.

The index of nondurable goods fluctuated much less drastically. From a high point of 180 in November 1943, it reached a low of 154 in October 1945. A recovery during the next few months carried the index to 167 in February 1946. By November it stood at 171. The quantity of such goods going to civilians was greater than the index indicates because of sharp declines in military procurements.

Measured by prewar standards, the output of almost all durable and nondurable goods was high as 1946 drew to its close. Among the consumer durable goods only a few, such as passenger automobiles, mechanical refrigerators, and sewing machines, fell short of the 1940-41 average output, and among the nondurable goods only women's hosiery had not yet attained the prewar level.

During the war years one of the great uncertainties of the future was the probable effect that the curtailment of Government expenditures would have. An important question then was whether private capital formation and consumers' expenditures would come anywhere near offsetting the decline in Government expenditures. From an annual rate of approximately 100 billion dollars in the second quarter of 1945, Government expenditures fell, rapidly at first and then less rapidly, until by the fourth quarter of 1946 they were running at a rate of approximately 32 billion a year, a drop of more than two thirds. During the same period, however, the rate at which private capital was being formed rose from approximately seven billion dollars a year in the second quarter of 1945 to approximately 30 billion a year in the fourth quarter of 1946. Consumers' expenditures likewise rose, from a rate of 102 billion a year in the second quarter of 1945 to one of approximately 137 billion a year in the fourth quarter of 1946.

The high level of consumers' expenditures after V-J Day was made possible by three factors—a continuing high level of income payments to individuals, a decline in the rate of net saving, and a markedly increased use of consumer credit.

Income payments, which were running at a seasonally adjusted rate of 163.5 billion dollars a year in the first half of 1945, had declined in rate to 156.7 billion in the first quarter of 1946. In the second and the third quarters, however, the rate increased until by the fourth quarter it was probably running at 170 billion dollars a year.

In the rate of savings, on the other hand, the end of the war brought a decline. During the first half of 1945 people were saving approximately 27 percent of their income after taxes, or at a rate of 38 billion dollars a year. By the fourth quarter of 1946 they were saving only 9 percent of their income after taxes, or at the rate of 13 billion a year.

Consumer credit reached its high point in 1941, when the total volume of such credit outstanding was in an amount just short of 10 billion dollars. The low point was reached in 1943 when only a little more than five billion were outstanding. Though in January 1946 the volume of outstanding consumer credit had gone no higher than to 6.5 billion, by September it had risen to 8.4 billion. In the last quarter of the year, with the relaxing of Regulation W, which controlled consumer credit, the volume may well have approached the all-time high.

The impact that the volume of consumer buying had on prices in the absence of price controls is now so well known that it has become almost an obsession. Using August 1940 as a base, the Bureau of Labor Statistics weekly index of wholesale prices rose less than 7 percent between August 1945 and June 1946. This was a period during which prices were still subject to control. When price control lapsed at the end of June the index, which was 148, began to rise sharply, to 181 in November. During the former period spot commodity prices rose less than 10 percent, but between June and November 1946 they increased 50 percent. The cost of living rose only from 131 to 135, or 3 percent, between August 1945 and June 1946; it went from 135 in June to 152 in November, an increase of 11 percent in five months.

By far the greatest increase was in farm prices, which rose 40 percent between August 1945 and November 1946. The prices of nonfarm products during the same period increased 20 percent. To the degree that the prices of farm products cover industrial raw materials, their full effect on the wholesale-price level is probably still to come.

It would seem, therefore, from a consideration of some of the basic economic trends during 1946 that production is still short of meeting the tremendous consumer demand at present prices. It is a question, indeed, if that demand can be met by the nation's existing industrial plant. According to the Department of Commerce and the Securities and Exchange Commission, 6.7 billion dollars were expended on new plant and equipment in 1945. Such expenditures in 1946, actual and anticipated, amounted to 11.7 billion. During the last quarter of the year a comparatively small increase over the amount for the third quarter showed that there was a decided tendency to level off. The anticipated expenditures for that quarter amounted to 3.4 billion dollars, compared with anticipated expenditures of 3.3 billion for the third quarter. In the case of manufacturing and mining businesses, which account for half the total capital outlays, anticipated expenditures for the fourth quarter were actually less than those for the third quarter. Just how much actual expenditures in the last half of the year fell short of anticipations is as yet unknown.

Perhaps this field of capital investment affords one clue to the economic outlook for 1947. Individual industries will naturally vary in their capital requirements, but if business generally should shelve or abandon its plans for capital expansion because of rising costs, supply problems in the raw-material and subassembly stages of production, uncertainties arising from the drop in the stock market, the break in the price of cotton, and threats of strikes and portal-to-portal pay suits then the time when production could begin to satisfy consumer demands at reasonable prices would be indefinitely postponed. Purchasing power would be dissipated in bidding up the prices of commodities in short supply, and the ensuing collapse of consumer buying could easily precipitate a retrenchment in production. At the heart of this potential sequence of events lies the problem of labor-management relations. Unless these two groups find some way of co-operating in a common task and cease thinking of themselves as hostile armies arrayed against each other in an industrial civil war, the outlook will be far from bright. Self-restraint instead of the exploitation of temporarily favorable situations for all they are worth must be exercised by all special groups —labor, management, trade, agriculture, and finance. Unless the free economy is characterized by reasonable self-control, it may easily find itself again in a position where it will again be subjected to reasonable, or even unreasonable, external control.

The United States has entered 1947 in much better shape, however, than it entered 1946. The worst problems of reconversion are behind it. The objective economic conditions of a continuing prosperity are still present. Only a failure to solve the problems of industrial relations, which are really problems of human relations, threatens to mar the outlook. If all parties to our common economic life would bend their efforts in this direction rather than spending their time counting the days until the next depression strikes, any serious slump in business might be indefinitely postponed.

EARLE L. RAUBER

Sixth District Indexes

DEPARTMENT STORE SALES*

Place	Adjusted**			Unadjusted		
	Dec. 1946	Nov. 1946	Dec. 1946	Dec. 1946	Nov. 1946	Dec. 1945
DISTRICT	362	347r	297	569	416r	466
Atlanta	414	382	335	588	473	476
Baton Rouge	412	395	320	631	447	489
Birmingham	337	318	290	520	381	447
Chattanooga	375	388	305	577	442	470
Jackson	350	316	298	510	379	435
Jacksonville	445	423	366	694	507	571
Knoxville	335	335	321	510	395	488
Macon	327	334	286	571	421	501
Miami	395	349	289	655	425	479
Montgomery	355	337	315	562	414	497
Nashville	438	428	354	648	497	524
New Orleans	324	306	263	493	361	399
Tampa	493	464	377	769	547	588

DEPARTMENT STORE STOCKS

Place	Adjusted**			Unadjusted		
	Dec. 1946	Nov. 1946	Dec. 1945	Dec. 1946	Nov. 1946	Dec. 1945
DISTRICT	348	330	184	292	347	155
Atlanta	462	407	272	376	470	221
Birmingham	245	229	120	214	271	105
Montgomery	359	313	165	304	365	140
Nashville	523	475	304	444	552	258
New Orleans	305	259	129	267	293	113

LUMBER PRODUCTION*

Place	Adjusted**			Unadjusted		
	Nov. 1946	Oct. 1946	Nov. 1945	Nov. 1946	Oct. 1946	Nov. 1945
SIX STATES	140	138	96	143	136	98
Alabama	161	151	106	157	142	103
Florida	121	87	51	123	89	52
Georgia	173	174	132	183	171	140
Louisiana	96	106	69	101	109	72
Mississippi	128	139	89	133	133	93
Tennessee	171	170	130	181	190	138

	COTTON CONSUMPTION*			COAL PRODUCTION*		
	Dec. 1946	Nov. 1946	Dec. 1945	Dec. 1946	Nov. 1946	Dec. 1945
TOTAL	159	182	136	128	108	150
Alabama	170	193	141	130	111	158
Georgia	158	183	136	...	...	...
Tennessee	119	132	114	122	101	133

Place	MANUFACTURING EMPLOYMENT***			GASOLINE TAX COLLECTIONS		
	Nov. 1946	Oct. 1946	Nov. 1945	Dec. 1946	Nov. 1946	Dec. 1945
SIX STATES	145	141	134	168	168	136
Alabama	151	148r	135	168	179	140
Florida	130	119r	118	158	151	127
Georgia	141	139	128	156	163	125
Louisiana	130	130r	134	152	165	125
Mississippi	153	148	140	162	174	145
Tennessee	154	151	144	212	188	159

CONSUMERS' PRICE INDEX

Item	Nov. 1946	Oct. 1946	Nov. 1945
ALL ITEMS	159	152	134
Food	201	185	147
Clothing	162	163	144
Rent	n. a.	n. a.	114
Fuel, elec. and ice	115	114	110
Home furnishings	165	163	145
Misc.	135	134	131
Purchasing power of dollar	.63	.66	.75

CRUDE PETROLEUM PRODUCTION IN COASTAL LOUISIANA AND MISSISSIPPI*

	Dec. 1946	Nov. 1946	Dec. 1945
Unadjusted	235	232	208
Adjusted**	243	229	216

ELECTRIC POWER PRODUCTION*

	Nov. 1946	Oct. 1946	Nov. 1945
SIX STATES	290	276	231
Hydro-generated	272	263	216
Fuel-generated	313	293	252

ANNUAL RATE OF TURNOVER OF DEMAND DEPOSITS

	Dec. 1946	Nov. 1946	Dec. 1945
Unadjusted	20.3	19.0	19.0
Adjusted**	17.6	17.9	16.5
Index**	68.2	69.3	63.8

*Daily average basis
**Adjusted for seasonal variation
***1939 monthly average=100; other indexes, 1935-39=100
r Revised
n.a. Not available