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BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

New Crop Records Set

War Years Marked By High Output

The nation's farmers have been given much credit for the magnificent job they have done in producing to meet the country's expanded wartime needs for food and fibre. Sometimes the crediting of farmers with an exceptional job has been qualified by an admission that weather and growing conditions in recent years have been extremely favorable, but too much emphasis can be placed on this.

While this country did not enter the war until late 1941, the needs for war in other countries were already making themselves felt on the American agricultural economy by the beginning of the 1941 crop year. If we count 1941 as the first of the war years, 1945 is the fifth year of wartime crop production.

HYBRID SEEDS EXPAND YIELDS

In 1939 less than one-fourth of the nation's corn acreage was planted with hybrid seed. For 1945 it is estimated that nationally more than 60 per cent of the crop was sown with hybrid. In the states of the Corn Belt the rate of hybrid planting is higher, and in 1939 nearly 40 per cent of the acreage was in hybrid. For 1945 it is estimated that 85 per cent of the total corn acreage was planted to hybrid corn. In Illinois, Indiana, and Iowa the use of hybrid seed is practically universal and even in Michigan and Wisconsin more than three-fourths of the acreage was sown with hybrid seed this year. Similarly, the adoption of new strains of oats and soybeans, while less extensive in their use, has had a tendency to increase the yields of these crops.

In judging the productive job of the district's farm lands during the war years it will be convenient to treat total production in terms of its two component factors: yields per acre, and total acreages harvested. Taking the Seventh Federal Reserve District states as a whole, the average yield of corn in the prewar years, 1937-1940, was just under 46 bushels. In 1941 the yield was 48 bushels and a wartime peak of over 54 bushels was reached in 1942 followed by 52 bushels in 1943, 48 in 1944. The preliminary indication for 1945 is under the prewar average, amounting to only about 44 bushels per acre. The *national* average was just under 29 bushels for the four prewar years. This average has been exceeded in every one of the war years including 1945 and it appears that the war period yields will average nationally about 15 per cent above the immediate prewar period.

The average for the district in the war years is only about 7 to 8 per cent above prewar, but it must be remembered that a greater rate of increase outside the Seventh Federal Reserve District is in part at least due to an earlier rapid growth in the use of hybrid seed within the district than in other states.

Performance on a yield-per-acre basis for individual states within the district has not been uniform. The wartime yields of corn in Iowa exceeded the immediate prewar years by more than 10 per cent and similar rates of increase were shown for Wisconsin and Indiana. For Illinois the wartime yields were only about 5 per cent above the prewar figure. For Michigan the output per acre during the war years has averaged about the same as it did in the four years preceding the war period.

CORN ACREAGES EXPANDED

When we turn to corn acreages harvested it is found that for two of the war years, 1941 and 1942, the national total was under the average of the five immediate prewar years, 1936-40, while the total acreages harvested in 1943, 1944, and 1945 are substantially above the prewar level, the peak of 97,235,000 acres having been reached in 1944 compared with 90,830,000 for the five-year period 1936-1940. Present indications are for a total national acreage of 92,100,000 to be harvested this year. However, the five-year average of the total corn acreages harvested in the war years is only about 1 per cent above the five-year prewar average, although the acreage last year was 7 per cent above the prewar figure.

For Iowa a prewar average of over 10 million acres has been substantially exceeded during each of the last three years, with preliminary indications for 1945 of 11,027,000 acres, about 9 per cent above prewar years. For Illinois a 1936-1940 average of 8,558,000 acres was exceeded only in 1944 and 1945, with nearly 9 million acres harvested in 1944 and a preliminary estimate of 8,700,000 acres for 1945. The prewar Indiana average was 4,300,000 acres and 1943 acreage was roughly the same. For last year and this a total acreage of around 4,600,000 acres is about 7 per cent above prewar.

Wisconsin corn acreage has shown consistent expansion throughout the war years rising from a prewar average just under 2,300,000 acres to an indicated total for 1945 of 2,700,000, an increase of about one-sixth.

OATS YIELDS RISE LITTLE

Oats constitute an important feed source in the district, and are of considerable importance in terms of total acreage and production. National average yields of oats have varied considerably during the war years, averaging below prewar in 1941, 1943, and 1944 and very materially above in 1942 and 1945. The indications for this year are for an average yield of 37.6 bushels, an all-time record high. Among the district states average yields have be-

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Reconversion in the Seventh District—I

Upturn From Employment Slump Expected Within Three Months

The sudden ending of the war with Japan has brought a severe economic shock to a large part of industry and the working force of the Seventh Federal Reserve District, comprising most of Illinois, Indiana, Michigan, and Wisconsin, and all of Iowa. Strong recovery from the post V-J declines in manufacturing employment and production is expected, however, during the next 12 to 18 months, with an upturn now generally anticipated by the year-end. Capacity operations for several consumer durable goods industries are not expected until at least mid-1946, with considerable variation among industries according to the magnitude of their respective reconversion problems and the incidence of labor disputes.

Six weeks after the Japanese formal request for peace, the reconversion picture in the Midwest contains many mixed elements, giving rise to both highly optimistic and pessimistic appraisals. It is now becoming increasingly clear, however, that a large reconversion task lies ahead for many Midwest manufacturing firms. Moreover, considerable unemployment associated with both war contract cancellations and labor disputes can be expected to persist throughout the winter months, and, although there are many favorable aspects to the general reconversion situation, there is no basis for complacency toward the problem of providing jobs for all persons seeking work, including many newly discharged veterans.

Favorable aspects of Seventh District reconversion are:

1. Although many firms which produced specialized war goods face serious reconversion tasks, the vast majority of Seventh District manufacturing establishments did not change their production processes or products greatly during the war and, hence, have minor, if any, reconversion problems.
2. In general, the huge wartime expansion in industrial production capacity in the Seventh District has been characterized by facilities with better-than-average prospects for adaptation to peacetime manufacturing.
3. As the center of national consumers' durable goods production, Midwest industry in particular has a large backlog of demand for peacetime products.
4. Midwest manufacturers are commonly reconverting their plants to produce goods which they made formerly, and their "know how," vastly enlarged as a result of record wartime production, will add immeasurably in solving many technical reconversion problems.
5. In general, Seventh District industrial firms are in the strongest financial position in their history.
6. Although there are numerous important material supply bottlenecks, the over-all material situation for civilian production has improved tremendously.
7. An adequate, well-trained labor force exists to make

all-out civilian production possible.

Unfavorable aspects of reconversion in the Seventh District include:

1. Although most Midwest manufacturers devoted a good deal of attention to reconversion problems prior to the end of the war, many of them were not prepared for immediate reconversion because they expected war production to continue for at least three to six months.
2. Serious questions have arisen with respect to relationships among (a) prices, particularly of new goods; (b) costs, especially wages; and (c) profit margins.
3. A wave of post V-J labor disputes has hit the Seventh District, particularly because of reductions in "take home" pay.
4. War contract cancellations have reduced incomes of manufacturing firms and of hundreds of thousands of wage earners; shorter hours and lower than wartime wage rates in peacetime industry have reduced, temporarily at least, consumer spending and some of the effectiveness of the backlog of demand.
5. Prospects for immediate construction of new manufacturing facilities to replace most or all of the unusable war-built plants are not generally considered to be good, so that Midwest manufacturing plants now or in the next several months at least cannot offer as much working space to provide as many jobs as during the war.
6. A significant increase in the Seventh District's labor force is now anticipated as the number of men and women discharged from the armed services is sharply increased, intensifying the problem of balancing labor supply and demand.
7. Many difficult problems concerning the disposal and peacetime use of Government-owned plants and equipment seem likely to cause some reconversion delays.
8. Many manufacturing firms must reconstruct or develop channels of distribution for peacetime products, particularly manufacturers who have had no previous marketing experience except to Government.

Since the outbreak of war, it has been obvious that the reconversion-to-peace process would be a difficult one because the wartime economy became increasingly dependent upon huge expenditures of the Federal Government. To "get Government out of business" and to find an equivalent non-Government economic force remain at the heart of the reconversion task ahead in the Midwest and the nation. Nevertheless, the prospects now appear to be excellent for the Seventh District to meet its reconversion problems as successfully as any other region unless widespread labor disputes in the district consumers' durable goods industries retard the resumption of peacetime production. Midwest business men and workers are thinking in terms of expansion, and this is precisely

the attitude which will enable them to meet reconversion problems quickly and effectively.

INDUSTRIAL SITUATION WHEN PEACE CAME

Seventh District industry, which contributed nearly 80 billion dollars, or roughly 25 per cent, of the nation's industrial war output since Pearl Harbor, was still overwhelmingly devoted to war production when the Japanese asked for peace. Although post V-E war contract cut-backs and cancellations were particularly heavy in the aircraft and ordnance industries, and the district ship-building program had been nearly completed, many of the contract adjustments affected the backlog of orders much more than actual production and employment immediately after Germany surrendered. When the War Manpower Commission suspended its controls on August 14, 1945, nearly two-thirds of the Seventh District's 66 labor market areas were classified in Group I or Group II, designating "critical" or "serious" labor shortages, compared with about one-half of the nation's labor market areas classified similarly.

This heavy war program, combined with shortages of materials, equipment, and labor in most areas, severely limited reconversion of Midwest manufacturing plants prior to the end of the Japanese war. Reconversion planning, in contrast to physical reconversion, proceeded rapidly after V-E Day. Many Midwest war manufacturers, however, were expecting a gradual reconversion process together with three to six months more heavy war production, when sudden termination of hostilities in mid-August 1945 brought a sharp wave of war contract cancellations.

CURRENT EMPLOYMENT TRENDS

At the close of the war in the Pacific, manufacturing employment in the Seventh Federal Reserve District states numbered approximately 2,830,000 persons, or about 20 per cent under the November 1943 peak of 3,475,000 workers, and roughly six per cent below the 3,025,000 workers employed on V-E Day. During the first month after the Japanese surrender was announced, lay-offs in Seventh District manufacturing plants are estimated to have numbered 375,000 persons, or about 13 per cent of all factory workers employed just before hostilities ceased. New and continued claims for unemployment compensation in the Seventh District states also numbered about 375,000 in mid-September 1945, compared with 85,000 a month earlier, indicating that roughly 20 per cent of the displaced workers have not filed unemployment benefit claims because they have found new jobs or do not expect to continue seeking employment. On September 18, at least 100,000 additional workers in the district were not employed because of labor disputes.

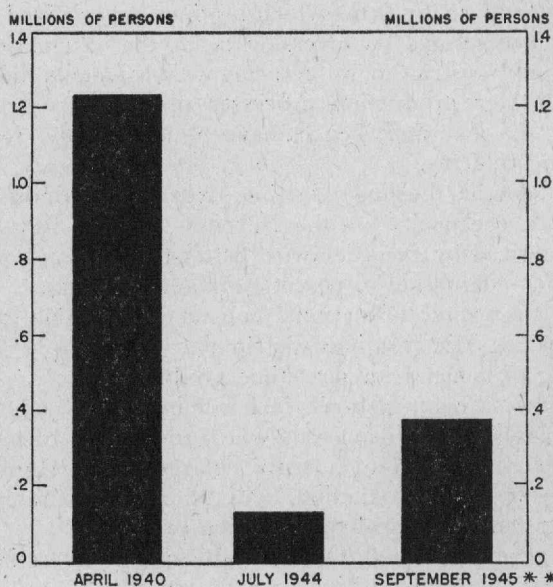
Net manufacturing employment is expected to decline somewhat further; remain level, except for labor disputes, for several weeks; and then begin an upturn before the year end. The key to increased manufacturing em-

ployment lies, of course, in the speed with which production occurs in the district's leading consumer durable goods industries, particularly automobiles, refrigerators, washing machines, radios, furniture, and small electrical appliances. The current outlook for expanded employment, however, is clouded by the number of present and impending labor disputes. Moreover, because many Government-owned plants are expected to remain idle for several months at least, and few, if any, offsetting new plants are likely to come into operation during the same period, it appears fairly evident that manufacturing employment in the Seventh District will not re-attain, during the winter months, a level comparable to that which prevailed when victory was won.

Throughout the Seventh District, employment opportunities are now reported to be large in nonmanufacturing activities, particularly in trade, service, and railroads. Construction employment is expected to rise rapidly as materials become available. Many job openings, however, are not being filled because of the lower-than-wartime wage rates prevailing. Maintenance of wartime "take home" pay in peacetime employment so as to insure pre V-J living standards is the objective of most displaced war workers and the chief cause for current labor unrest.

On the basis of the Seventh District's manpower contribution to the armed services, it is anticipated that the district will receive at least 15 per cent of all discharged veterans. Withdrawal of women, older persons, and students from employment, however, offsets some of the in-

UNEMPLOYMENT IN SEVENTH FEDERAL RESERVE DISTRICT STATES *
APRIL 1940, JULY 1944, AND SEPTEMBER 1945



*Illinois, Indiana, Iowa, Michigan, and Wisconsin.

**Excludes persons off work because of labor disputes.

SOURCE: Figures compiled and estimated from data furnished by the U. S. Bureau of the Census, the Unemployment Compensation Commissions of each of the five states, and the War Manpower Commission.

crease attributable to returning veterans.

At the end of the war with Japan, manufacturing payrolls in the Seventh Federal Reserve District are estimated to have been almost 30 per cent under their wartime peak of November 1943, and 15 per cent below the V-E Day level. From preliminary data, it now appears that manufacturing payrolls in the Seventh District have declined at least 20 per cent since the Japanese surrender. Roughly two-fifths of the recent decline is attributable to fewer persons at work and the remainder to the elimination of premium overtime pay and additional payments related to expanded production.

INDUSTRIAL PRODUCTION SINCE V-J

The value of manufactured products in the Seventh Federal Reserve District states is estimated to have been at an annual rate of about 34 billion dollars when the Japanese sued for peace, compared with 37 billion dollars in 1944. Heavy war contract cancellations in recent weeks have sharply reduced the district's industrial production perhaps by as much as 25 per cent. The largest contract cancellations in this district have been in aircraft engines and parts, 85-95 per cent, and in ordnance, 98-100 per cent, with both industry groups having limited prospects for large peacetime production.

Industrial production in the Seventh District is now dominated by goods whose output has not required extensive changes from wartime manufacturing processes. That production in this general category is substantial is revealed by the fact that only a comparatively small fraction of the Midwest's present industrial plants were converted, expanded, or newly constructed for war purposes since 1940. This is true despite the fact that Midwest industry underwent the most extensive conversion-to-war of prewar manufacturing facilities of any region in the nation. Since 1940 about 3,300 manufacturing establishments in the five district states were expanded or newly built for amounts in excess of 25 thousand dollars each, according to the War Production Board. About one-third of these new facilities represented entirely new plants and the remainder were converted and/or expanded. The number of establishments with new facilities compares with the district's prewar total of 30,000 manufacturing plants in all fields.

The exceedingly strong financial position of manufacturing firms in the Seventh District and the speed of war contract settlements are evidenced in the very small volume of T loan activity after mid-August. Since the end of the war, T loan applications have showed very little increase and authorizations have been for amounts averaging only half the size of those approved earlier. Only about 165 Seventh District war contractors have T loan funds available and less than 10 are currently borrowing under their T loan commitments.

Most Midwest manufacturers appear to have adequate sources of funds, internal and external, with which to finance their reconversion and expansion programs. Some of the smaller companies with ambitious postwar plans

are expected to be more dependent upon external sources, including banks, for funds.

INDUSTRIAL AREA PROBLEMS VARY

Transitional problems in the Detroit industrial area began earlier than in most other sections of the Midwest principally because heavy output of aircraft and parts and ordnance items made Detroit vulnerable to the sharp cutbacks and cancellations in war contracts for these products after V-E Day. When V-J occurred, the area had not progressed greatly toward peacetime production because of limitations of materials and equipment, and a heavy volume of new unemployed was added to intensify transitional problems. Detroit's war production was based upon as complete conversion of peacetime plants as in any other area in the nation. More than 630 factories in the Detroit area were converted, expanded, or newly constructed for war use since 1940, a higher ratio to the number of peacetime manufacturing plants, 2,800, than elsewhere among major industrial areas in the Seventh District. Since the end of hostilities, more than 100,000 workers have been released from war plants, and the total number of unemployed because of war contract cancellations since V-E Day is estimated to be in excess of 200,000 persons. Detroit is currently the center of the nation's largest labor disputes, resulting from a union drive to maintain wartime "take home" pay, with at least 80,000 workers involved. Reconversion outlook for both the automobile industry and Detroit is now filled with considerable uncertainty.

The sudden termination of the war found the Chicago industrial area producing nearly all-out for war purposes with little reconversion attempted or accomplished. Since the V-J holidays 125,000 persons have been laid off, of whom 90,000 have filed claims for unemployment compensation. While Chicago's war industries were more diversified than in Detroit, nevertheless, contract cancellations in aircraft and ordnance have contributed the largest number of released workers. More than 90 per cent of the area's manufacturing plants do not have major reconversion problems because their war work closely paralleled their peacetime production. Nevertheless, Chicago's principal reconversion task concerns a relatively small number of greatly expanded and newly built industrial facilities for war purposes. Thus far labor disputes have been on a much smaller scale than in Detroit, although the petroleum and farm equipment industries, among others, have had work stoppages that may spread to other industries. It is expected that manufacturing employment and production will level for a short time and begin an upward movement by the holiday season.

This summary of reconversion progress and problems reflects the results of continuing studies of industrial developments in the Seventh Federal Reserve District. Additional reports concerning developments in other Seventh District industrial areas will be made in future *Business Conditions* articles.

Reciprocal Trade Agreements—Past and Present

Program A Vital Part Of Postwar Economic Policy

By the recent extension and revision of the Reciprocal Trade Agreements Act the Congress of the United States took the first practical step toward making effective the principles set forth at Dumbarton Oaks and San Francisco. At both of these conferences the necessity for international cooperation in economic matters was a basic assumption. The promotion of expanded world trade, untrammelled by the restrictions and discriminations which characterized the interwar period, is thus an indispensable part of the economic policy to which we are committed through our acceptance of the United Nations agreements. The Reciprocal Trade Agreements Act provides a framework under which this objective may be pursued.

First formulated and adopted in 1934 under the leadership of former Secretary of State Cordell Hull, the Trade Agreements Act was designed to expand foreign markets for the products of the United States through mutual tariff concessions and through the application of the principle of equality of treatment for all nations. The original act authorized the President (1) to negotiate bilaterally trade agreements with foreign countries in which the then existing United States tariffs could be reduced by a maximum of 50 per cent in return for equivalent concessions by foreign governments, and (2) through the maintenance of the unconditional most-favored-nation policy to generalize these concessions to all other countries which did not discriminate against United States exports.

The authority of the original act extended for three years and was renewed in 1937, 1940, and for two years, in 1943. The most recent renewal, in addition to extending the program until 1948, amended the act to permit tariff reductions to a maximum of 50 per cent below the rates in effect on January 1, 1945—a possible 75 per cent below the 1934 rates for those commodities on which the tariff had been reduced the full 50 per cent prior to January 1, 1945. This additional authority will permit further negotiations and thus encourage a larger volume of trade with countries, such as Great Britain and Canada, with whom our bargaining power was nearly exhausted.

As has been pointed out often by proponents of the program, the continued reductions of our trade barriers are especially crucial at this particular time, when demand for United States goods to supply reconstruction needs abroad is enormous. Except through loans and the use of present cash resources, foreign countries can obtain the dollar exchange needed to make this demand effective only by exporting to the United States. The trade agreements program clearly recognizes this fundamental relationship between exports and imports.

The rebuilding of world trade is of definite advantage to the United States from the standpoint of our domestic

production and employment. Although in prewar years our exports constituted something less than 10 per cent of our national income, there are many industries, such as cotton, covering widespread areas which are dependent to a large extent on an export market. Moreover, with reduced tariffs, our foreign trade could be expanded to acquire a greater relative importance in our economy than it has enjoyed in the past. An annual export volume of 10 billion dollars has been mentioned as a reasonable figure for the postwar period.

Opponents of the program stress the competitive effects of increased imports on domestic industries. It is believed, however, that the employment provided by the expansion in our export business would far offset the labor displaced by a greater volume of imports. Those industries which can exist only behind tariff walls will sooner or later have to face adjustments in the interest of industrial efficiency and national well-being. Protectionists have typically used two arguments against tariff reductions. The first—the infant industry argument—is now not widely applicable. The second—that the competition of cheap foreign labor tends to drive down the American standard of living—has been proved a fallacy. High wages have resulted from industrial efficiency and low unit cost, not from tariff protection. Some of the highest wages paid in the U. S. are in export industries which have no tariff protection.

COMMERCIAL POLICY 1918-1934

The current trend toward relaxation of trade restrictions is in marked contrast to the commercial policy we pursued at the close of the first world war. Much has been written in recent years concerning the failure of the United States to act in accordance with its newly acquired responsibilities as a creditor nation. In part, the growth in protectionism after 1918, as manifested in the Fordney-McCumber Act of 1922 and the Smoot-Hawley Act of 1930, was an outgrowth of our prewar trade philosophy as a debtor on international account and as a youthful economy struggling to develop its industries. In addition, new industries, nurtured by war requirements, clamored for protection against their more efficient foreign competitors.

During the 'twenties serious repercussions from our continued excess of exports over imports were averted by heavy loans abroad. By the close of 1928, however, the flow of capital from the United States was sharply curtailed and foreign governments found themselves unable to meet their external obligations. The 1930 Tariff Act of the United States, which raised our import barriers to unprecedented heights, made adjustments in

the balance of payments even more difficult and, together with the developing depression, gave rise to a series of retaliatory measures abroad. Bilateral trade pacts, quota restrictions, and exchange controls, as well as preferential tariff arrangements—all tending to stifle the flow of international commerce—were the weapons used to isolate individual economies from outside disturbances. Through these devices governmental monopolies were able to channel trade artificially to serve nationalistic objectives. Germany staged the most comprehensive trade war, developing an elaborate system of discriminatory exchange rates, import controls, and barter arrangements which played an important role in building her war machine throughout the 'thirties. The system of Empire preferences known as the Ottawa Agreements discriminated against our trade in British markets.

The sharp retreat into economic isolationism and the depression were reflected in a precipitous decline in the volume of world trade. As estimated by the League of Nations, the dollar aggregate of international trade declined about 65 per cent from 1929 to 1934. The shrinkage for the United States was more than 75 per cent.

Despite the general prevalence of protectionist philosophy, sentiment favoring reduction of the ruinous Smoot-Hawley rates began to gain momentum in the United States. Controls abroad were shutting out United States goods while the depression deepened. As early as 1931, Mr. Hull suggested the use of reciprocal trade pacts as a method for reducing trade barriers. In 1932 tariff adjustment became an issue in the presidential campaign, and the Democratic victory opened the way for a change in commercial policy.

HOW THE PROGRAM OPERATES

The Act of 1934 was an amendment to the Smoot-Hawley tariff law. It provided the machinery by which the rates set by legislative action in 1930 could be gradually reduced through tariff bargaining with individual foreign nations. The method of reciprocal action assured us of obtaining concessions from other countries in return for those we were willing to grant.

The program differs in several important respects from the traditional United States tariff adjustment procedure. It is a flexible process capable of selective application to one commodity at a time. Responsibility for the reduction of duties was delegated by Congress to the President, who was authorized to negotiate tariff revisions through executive agreements which are binding without Senate ratification.

Great care is taken to investigate all possible ramifications of proposed agreements and to prevent possible injury to domestic industries. The procedure involves a fairly elaborate administrative structure. Supervision of the program and decisions on important questions of policy are centralized in the hands of the Executive Committee on Commercial Policy, an inter-departmental committee which was set up late in 1933 and is concerned not only with the trade agreements program, but with

all aspects of foreign commercial policy. The Trade Agreements Committee, assisted by a number of special sub-committees, handles the administration of the program and makes preparation for negotiation. When it is proposed that a trade agreement with a particular country be undertaken, a public announcement is made concerning the commodities on which duty reductions will be considered. Interested parties may state their views at hearings before the Committee on Reciprocity Information or may submit criticisms and suggestions in writing. This material, together with factual analyses prepared within the administrative organization, is employed in determining what concessions will be granted to and sought from the country in question.

EQUALITY OF TREATMENT

Although the negotiation of the agreements is bilateral in character, they are made multilateral in effect through the application of the unconditional most-favored-nation policy. This policy means equal tariff treatment for all countries. It abolishes discrimination which is one of the most important sources of trade disputes between nations. Under the most-favored-nation clause, reductions in duties made in an agreement with a particular country are generalized to apply to all other nations which do not discriminate against American exports. The unconditional form of most-favored-nation treatment requires no compensating concessions by third parties. The President has the authority to suspend the extension of concessions to any country which "unduly discriminates" against American commerce.

At first glance it might appear that the operation of the most-favored-nation principle in connection with the trade agreements program would result in large imports of commodities in competition with American products from non-trade agreement countries, and, concurrently, in a rapid exhaustion of our bargaining power. In practice, however, there are safeguards against either of these developments. Probably the most important is the "chief supplier" rule. Concessions granted to a country are usually limited to those items for which it is the principal source of supply, and therefore the risk of destroying our bargaining advantage with third countries through the generalization of concessions is relatively small.

Additional defenses against unintended benefits to third countries are found in the so-called "escape clauses". Where there is any doubt about the effect of concessions on the volume of imports or where it is felt that future developments may modify current supply relationships, the trade agreements organization may stipulate that in case unduly large imports of a commodity result from the extension of the concession to third countries, either of the principal parties may change or withdraw the concession. In some cases quota restrictions may be imposed on the item in question. This latter type of "escape clause" has been used in only one agreement, although in several cases actual quotas have been writ-

ten into the agreements. The quota provisions have been sparingly used, since they are in themselves a type of trade discrimination. Equality of treatment, however, has been extended to non-tariff trade restrictions as well as to import duties.

RESULTS OF TARIFF REDUCTIONS

In the eleven years since the Trade Agreements legislation became effective, 32 agreements have been signed with 27 nations. With the single exception of Cuba, all of these agreements contained the unconditional most-favored-nation clause. The immediate effect of the concessions granted in these agreements has been a reduction in the average rate on dutiable imports under the Smoot-Hawley bill from 50 to about 35 per cent. Of a total of over 3,000 items on our tariff list, reductions in duties have been effected on more than 1,200. In 1939, the last fairly normal prewar year, 60 per cent of all our exports went to trade agreement countries.

The full 50 per cent reduction authorized in the 1934 Act has been carried out with respect to 42 per cent of our dutiable imports, on the basis of 1939 import values. On another 21 per cent of these commodities the duties have been reduced by something less than 50 per cent, while on the remaining 37 per cent no concessions at all have been made. On this final 37 per cent, the new Act grants no additional authority for tariff reduction.

As might be expected, the major duty reductions have been to countries which are the principal markets for our exports. Prior to the recent revision, authority to make concessions was nearly exhausted for more than 90 per cent of dutiable imports from Great Britain and Canada, which together accounted for 31 per cent of our total exports in 1939 and have become enormously more important during the war. The rates on exports to Latin American and non-Axis European countries have also been reduced substantially.

The real criterion by which the success of the program must be judged is its effect on the volume of the foreign trade. Statistical measurement of the relationship between any one phase of our economic policy and the growth in our trade is, of course, impossible. There were many variables which helped to build up our foreign trade in the later 'thirties—including such important factors as the drought and industrial recovery. Nevertheless, some indication of the extent to which the program has contributed to an expanding volume of trade can be gained from a comparison of our transactions with agreement and non-agreement countries. Although beginning in 1933 our trade with all countries increased, the rate of increase with trade agreement countries was considerably greater than that with other countries. Comparison of imports and exports for the period 1934-35 with 1938-39 shows that exports to trade agreement countries rose 52 per cent, while those to other countries were up only 30 per cent. Imports from agreement countries rose 18 per cent compared with 11 per cent from others.

The greatest percentage reductions in American tariffs have been applied to spirits and wines, sugar, fishery products, wood, non-ferrous metals, and related manufactures—all of which have been cut more than 30 per cent. Concessions in rates on glassware, cotton goods, and certain agricultural products have also stimulated imports of these products. On the other hand, the United States has received the benefits of lower tariffs abroad—especially on such industrial commodities as automobiles and tires, office equipment and machinery, and paints and varnishes. Concessions by trade agreement countries have expanded our foreign sales of agricultural produce. The reductions of duties on lard and wheat by Great Britain and on fresh and preserved fruits and vegetables by other countries are notable examples.

As emphasized in the foregoing discussion, one of the unsettling forces affecting international relations after World War I and necessitating a change in commercial policy was the pressure on the balance of payments arising from the persistent excess of United States exports over imports. There has been little opportunity to judge whether or not the trade agreements program has exerted a beneficial effect on our balance of payments position. In 1936 our export balance dropped appreciably, but much of this decline reflected an increase in agricultural imports during the drought. Since 1936 our exports have again increased sharply over imports. The wartime balance of payments is, of course, no test of the effectiveness of the trade agreements program.

IMPLICATIONS FOR THE FUTURE

During the past few years, reciprocal agreements have been subordinated to the worldwide network of quantitative trade controls. One of the most challenging tasks for the future is the promotion of a large volume of multilateral trade. Many nations will be tempted to handle their postwar exchange difficulties by the continuation of restrictive practices. The Bretton Woods monetary schemes are designed to eliminate exchange restrictions and to provide greater exchange stability, but they must be accompanied by a more fundamental adjustment in international commercial relations by which those dollar requirements of our foreign customers not supplied by a sound policy of foreign lending will be met by our imports of goods and services. The reciprocal trade program, which attacks this basic problem, is considered one of the most important instruments in the prevention of a new growth of economic nationalism.

It will probably be some time before the major trading nations will be in a position to export goods in sizable amounts. Reconstruction needs will be satisfied first. Thus the impact of further tariff reductions on domestic industries will not be sudden or damagingly large. In the interim, the prospects for a flourishing foreign trade will encourage international investment. The passage of the Trade Agreements Act by Congress clarifies the position of the United States with respect to future commercial policy.

Chicago's Wartime Economic Changes

New Records Established In Employment And Production

During the six years following the outbreak of war in Europe in 1939 until the Japanese sued for peace, the Chicago industrial area¹ underwent some of the most striking economic changes in its history. Some of the principal developments were:

1. Total population, including military personnel stationed in the area, was slightly above the prewar level.
2. Civilian population, however, was moderately below the peacetime level, net military withdrawals having more than counter-balanced gains from net in-migration and excess births over deaths.
3. Despite the decline in civilian population, the civilian labor force, which includes all persons fourteen years of age and over employed or actively seeking employment, was substantially higher, indicating far greater utilization of available manpower than in 1939.
4. Total employment, moreover, gained significantly with the greatest expansion occurring in manufacturing; contrary to some opinion, nonmanufacturing employment was also maintained.
5. The expansion of industrial facilities was larger than in any other industrial area in the nation.
6. Reflecting a substantial expansion in both employment and industrial facilities, the area's value of industrial production at the end of the Japanese war was almost three times that of 1939.
7. Despite these phenomenal gains, the Chicago industrial area barely maintained its peacetime proportion of the respective national totals, reflecting greater relative growth elsewhere in the nation.

These conclusions with respect to wartime shifts in population, employment, and industrial production represent some of the principal highlights of an analysis of the war's effect upon the people who work, live, and do business in the Chicago industrial area, sponsored by the Federal Reserve Bank of Chicago, the Chicago Association of Commerce, and the Chicago Committee of the CED.² Additional conclusions concerning wartime trends in income payments and wages, consumer expenditures, and accumulated savings will be summarized in the October 1945 issue of *Business Conditions*.

CIVILIAN LABOR FORCE EXPANDS

Although the civilian population of the Chicago industrial area dropped from 4,820,000 in April 1940 to 4,735,000 at the end of 1944, total population actually

increased from 4,826,000 to 4,850,000 persons, because of the military personnel stationed in the area. The latter increased from 6,000 to more than 100,000. The decline in civilian population is attributable almost entirely to the net withdrawal from the area of an estimated 450,000 persons for service in the armed forces. Net civilian in-migration was 195,000 and births exceeded deaths by about 170,000. At the end of 1944, an estimated 2,300,000 persons, or 48.6 per cent of the total civilian population, were in the labor force, whereas in April 1940 the labor force of 2,188,000 represented 45.4 per cent of civilian population.

Despite the drop of 85,000 persons in the civilian population in the Chicago industrial area between April 1940 and the end of 1944 the number of persons employed rose from 1,880,000 to 2,261,000 for an increase of 381,000. When the Japanese sued for peace, 98.3 per cent of the total labor force was at work compared with 85.9 per cent during April 1940. At the same time the number of unemployed, including workers in the process of changing jobs and those seasonally unemployed, was estimated between 25,000 and 40,000 against 308,000 in April 1940 when the total labor force was 112,000 persons smaller. At the end of 1944 women represented 37.4 per cent of all employed persons as against 28.5 per cent before the war.

MANUFACTURING SHOWS LARGEST GAIN

Employment in manufacturing industries in the Chicago industrial area was 50 per cent higher when Japan surrendered than in 1939. Manufacturing employment, moreover, represented 43 per cent of total workers as against 34 per cent before the war. An estimated 925,000 persons were in such employment in the Chicago area as against an average of 616,900 in 1939. The peak of manufacturing employment here was passed more than a year ago, with a gradual downward trend to V-E Day, a somewhat more rapid recession thereafter until August 14, 1945, and a much sharper drop since.

The greatest increase in employment in munitions manufacturing occurred in the production of transportation equipment, which rose from 18,000 persons in 1939 to 100,000, a gain of 82,000. The development of a huge new industry almost wholly during the war years for the production of aviation engines, planes, parts, and equipment was largely responsible for this expansion.

There was almost no employment in the area in ordnance production in 1939, while just preceding final victory 65,000 persons were turning out goods in this classification, including principally such items as guns, combat vehicles, shells, bombs, and torpedoes. Employ-

¹The Chicago industrial area includes Cook, DuPage, Kane, Lake, and Will Counties in Illinois, and Lake County in Indiana.
²Many of the conclusions presented here have been developed from data provided by the Illinois Department of Labor, War Manpower Commission, United States Bureau of Labor Statistics, United States Bureau of the Census, War Production Board, and other related agencies.

ment in the electrical machinery grouping, which includes the vastly expanded electronics industry, climbed from 47,900 to 110,000. The tremendous increase in the area's production of highly vital iron and steel was reflected in a six-year rise in employment of roughly 40,000 to a total of 170,000 persons, the fourth largest gain among the nine industries classified as munitions producers.

Of the seven manufacturing industries grouped as non-munitions producers in the study, five showed gains in employment and two showed small decreases. The largest gain was in the food industry, with a rise in employment of 6,000 to a total of 92,000.

At the end of the war, the Chicago area's six largest manufacturing industries as measured by employment were iron and steel, electrical machinery, transportation equipment, food, non-electrical machinery, and ordnance. These six industries accounted for almost two-thirds of the 925,000 persons employed in manufacturing. In 1939, the six largest manufacturing industries were iron and steel, food, printing and publishing, textiles and apparel, non-electrical machinery, and electrical machinery. These six accounted for more than two-thirds of the 617,000 workers then employed in manufacturing.

Employment in business other than manufacturing in the same period gained by 40,000 persons, bringing the increase in total employment for the area to approximately 350,000. As previously indicated, manufacturing contributed 43 out of every 100 jobs in the area when the Japanese surrendered compared with 34 in 1939.

Underlying the 40,000 net increase in employment in nonmanufacturing lines during the war period were several sharply varying movements. Major gains occurred in employment by the Federal Government and by transportation, communication, and public utility companies. Until a year after Pearl Harbor employment in construction industries pyramided. Thereafter it declined steadily and in recent months has been well below the 1939 level.

RATE OF INDUSTRIAL PRODUCTION SOARS

With a 45 per cent increase in the dollar value of its industrial facilities since 1939, the Chicago industrial area almost trebled its output of goods which rose from 4.3 billion in 1939 to 11.9 billion dollars in 1944. Despite the ending of the European war in May, production in the area was running at an annual rate of 11.1 billion dollars when the Japanese asked for peace, a drop in the annual rate of but 800 million dollars from the 1944 record high.

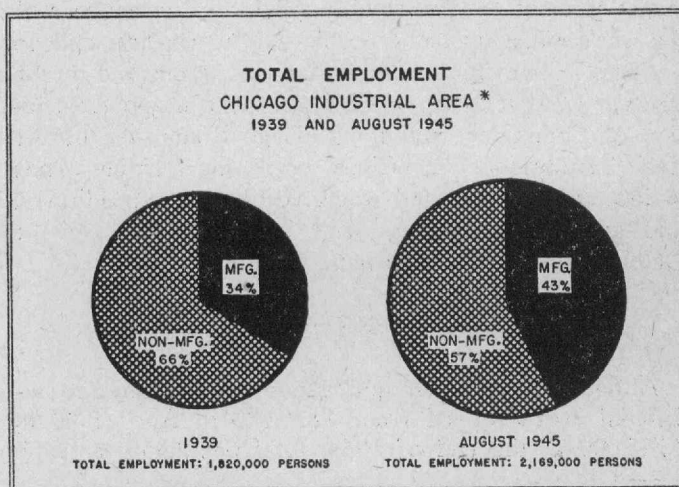
The 45 per cent increase in the value of Chicago's industrial facilities resulted from an investment of 1.3 billion dollars. This amount exceeded new investment in industrial facilities in any other industrial area in the country and topped the investment made in each of 42 states. Of the 1.3 billion, 36 per cent was spent in the erection of new plant buildings and additions to existing industrial structures. The remaining 64 per cent represented the cost of machinery and equipment installed in the plants. The Federal Government provided the funds

for 75 per cent of this development and the remaining one-quarter was financed from private resources.

With the new additions, Chicago's industrial facilities, on the basis of valuation, represented about 7.2 per cent of the nation's manufacturing plant total at the war's end. The current percentage represents a small decrease from 1939 when the Chicago industrial area had approximately 7.7 per cent of the nation's industrial plant. Many other communities which had little, or at least much smaller, industrial capacity at the start of the war have experienced tremendous gains in industrial facilities since 1939, although in all instances in smaller dollar amounts than the Chicago area, and commonly to a larger degree in more specialized lines of war production such as shipbuilding, final aircraft assembly, and explosives.

The six Chicago industries in which the largest additional plant investments were made since June 1940 follow: transportation equipment, 450 million dollars; iron and steel, 350 million dollars; ordnance, 175 million dollars; chemicals and chemical products, 110 million dollars; non-ferrous metals and products, 95 million dollars; and non-electrical machinery, 60 million dollars.

When Japan surrendered, the electrical machinery industry, which includes electronics, had effected the largest increase in output. It was producing at an annual rate of 1.6 billion dollars compared with a rate of 269 million in 1939. The manufacture of transportation equipment showed the next largest gain, rising to 1.35 billion dollars from 137 million. Food production showed the third largest gain, rising to a rate of 1.8 billion dollars annually compared with 931 million. Production of ordnance materials advanced from a negligible level in 1939 to 850 million dollars when the Japs quit. Following closely behind the output gain in the food and ordnance industries was the iron and steel industry whose production jumped to 1.7 billion dollars from 917 million. Non-electrical machinery had an output jump to 900 million dollars from 277 million, the sixth largest gain.



*Cook, DuPage, Kane, Lake, and Will Counties, Illinois, and Lake County, Indiana.
SOURCE: Figures compiled and estimated from data furnished by the U. S. Bureau of the Census, Illinois Department of Labor, and Indiana Employment Security Division.

NEW CROP RECORDS SET

(Continued from Inside Front Cover)

haved in a fashion similar to the national averages, with 1943 and 1944 yields below prewar averages for all states except Wisconsin. The performance of Wisconsin yields is unique. That state had an average prewar yield of 34.5 bushels while the wartime, five-year average yield was 41.6 bushels. The 1945 indications are for a yield of 50 bushels for Wisconsin. The Illinois yield is reported at 48 bushels for this year, with 41 for Iowa, 43 for Indiana, and 41.5 for Michigan. Very little of the increase in oats production during the war years can be ascribed to additional yields. Nationally the wartime average is only one bushel above the prewar years. Among the district states only Wisconsin shows a substantial increase, and a very mild increase was shown for Indiana. For Illinois, Iowa, and Michigan the wartime average yields were up to two bushels less than prewar.

BUT ACREAGES IN OATS MATERIALLY EXPANDED

The acreages of oats harvested for the country as a whole, on the other hand, show a marked wartime expansion. In every one of the five war years the national total of oats acreage harvested was substantially larger than the highest of the prewar years. The 1945 indications are for almost 42 million acres compared with a prewar average of 34.5 million acres. But when we turn to the states of the Seventh Federal Reserve District we find that the total acreages harvested were very little different in the wartime years from those of the prewar years, with the averages for the district as a whole substantially the same for both periods. However, by individual states some shifts did take place. In the prewar period the average acreage harvested in Iowa was 5,544,000 compared with an average of 5,150,000 for the 1941-45 period. This substantial decrease for Iowa was just about offset by slight increases for Illinois, Indiana, and Michigan, and a substantial increase in Wisconsin.

SOYBEAN PRODUCTION GREATLY STIMULATED

One of the more sensational crops of the wartime period has been the soybean. This crop was expanding rapidly before the war, but the needs for fats and oils in the war effort greatly stimulated the rate of increase in plantings. Very little, if any, of the increased production can be ascribed to changing yields. As a matter of fact, the national average yield during wartime was slightly below the prewar average, ranging between 18 and 19 bushels. In the three most important states for this crop, Illinois, Indiana, and Iowa, yields during the wartime period were slightly below prewar for Illinois and Iowa, and slightly better than prewar for Indiana.

Turning to the soybean acreages harvested for beans, some measure of the magnitude of the growth in the importance of this crop is afforded by the rates of increase shown by comparing acreages in the last two or

three years with the average of the prewar years. Nationally the total acreage harvested has more than tripled in recent years, with between 10 and 11 million acres shown for the last four years compared with 3,400,000 acres for the prewar average. For Illinois, the most important state nationally, the increase has been less proportionally, but this is due to the fact that the crop was well established as a farm enterprise in the prewar years in that state. Even so, acreages harvested in Illinois in the past two years were considerably more than double the prewar average. The most striking rate of increase was shown for Iowa where the 400,000 acres average of the 1936-40 period expanded to 2 million acres in 1944 and 1,900,000 this year. Current acreage in Indiana is more than 2½ times the prewar average, and while the acreages are less important in Michigan and Wisconsin, the rates of increase in these states have also been large.

BARLEY YIELDS RISE, BUT ACREAGE DECLINES

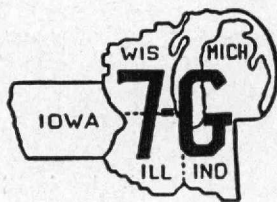
Barley is an important source of livestock feed, especially in Wisconsin, and its production was somewhat expanded nationally during the war years. For the country as a whole yields were 6 to 8 per cent better during the war years than in the immediate prewar years while the average acreage harvested during wartime was about 25 per cent larger than in the 1936-1940 period. In the states of the Seventh District, however, barley has lost ground to other crops.

In the prewar years an average of nearly 1,600,000 acres of barley was harvested in the five states, but indications for 1945 are that only about 300,000 acres will have been harvested. The trend in this total has been downward since 1939. The average for Wisconsin before the war was nearly 800,000 acres, but indications for 1945 are for only 93,000 acres. For Iowa the decline has been sharp, with an average of about 400,000 acres reported for the prewar years and with an estimated total of only 3,000 acres harvested in 1945.

The national total of harvested acreage for 52 crops expanded gradually during the war years by about 6 per cent, rising from 335 million acres as an average for the prewar years to over 350 million acres in the past two years. Similar rates of increase were shown for the states of the district, amounting to 5 or 6 per cent for all states except Iowa where it was only 2 per cent.

The 1945 crop production marks another outstanding performance on the part of American agriculture. New record crops of wheat and oats (1.1 billion bushels of wheat and 1.6 billion bushels of oats) have been achieved, the corn crop of over 3 billion bushels is close to all-time record proportions, and the oil crops (soybeans, flax, and peanuts) taken together will approach record proportions. The feed grains on the whole will provide stocks for reasonably optimum livestock feeding and the year will stand as one in which American agriculture, in the face of wartime hardships and in spite of generally unfavorable weather at the opening of the season, has chalked up a highly commendable performance.

SEVENTH FEDERAL



RESERVE DISTRICT

