

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

SEPTEMBER 1943

## Manpower—A Review of the Problem in the Twelfth District

**D**IFFICULTIES in meeting production schedules, especially in the aircraft industry, have focused attention upon manpower shortages in the West Coast states. Current labor needs are not being met and, allowing for Selective Service withdrawals, the estimated supply of local workers which will be needed in the months to come appears to be substantially below the anticipated demand for additional workers in most important industrial areas of the Twelfth District. Estimates of the number of additional workers that will be required by July 1944 to replace inductees and provide additional manpower in Twelfth District aircraft, shipbuilding, and other war plants range from 250,000 to 500,000. Only a part of these requirements will be met through increasing the labor force. As a result, efforts are being concentrated on more efficient utilization and distribution of the existing labor force.

### Sources of Labor Drawn Upon in 1940-1942

The rapid expansion in industrial employment in the Twelfth District which occurred in 1940, 1941 and 1942 was made possible by the existence of labor resources composed of persons previously unemployed or working on Federal emergency projects; of women, youths, and others not customarily seeking work; of persons who shifted to industry from other activities, principally because of the lure of higher wages; and, most important, of large numbers of migrants to centers of war production and military activity from both interior areas of the Twelfth District and other parts of the United States. Although general shortages of skilled labor in particular classifications and some localized shortages of other workers have existed since early 1941, labor stringencies were not insurmountable and, up to a year ago, the net inflow of new workers far exceeded Selective Service withdrawals.

From the last quarter of 1939 to the last quarter of 1942, total nonagricultural employment increased by 45 percent to slightly more than 4 million workers. Factory employment more than doubled during this period, but other nonagricultural employment advanced only moderately. In the latter classification, the most marked gains occurred in Federal and other government employment, principally at army and navy bases, and in the construction industry. More modest gains took place in the transportation and public utility fields, while total employment in retail and wholesale trade, in financial and service estab-

lishments, and in mining declined. Within these broad classifications, divergent shifts in employment have taken place in particular lines. In many nonessential activities and industries the number of workers has declined, reflecting the loss of men to higher-pay war industries, as well as inroads of the military services.

### Smaller Gains in Industrial Employment in 1943

Since the end of 1942, further gains in total nonagricultural employment have been small. By June, the latest month for which figures are complete, employment increased to 4,178,000 workers, a gain of 100,000, or 2 percent. Available information indicates little, if any, change since that time. Manufacturing employment advanced 108,000 workers from the fourth quarter of 1942 to June 1943, an increase of 8 percent, while other nonagricultural employment declined slightly.

The small over-all increase in employment and the shifting from less to more essential jobs which have occurred in recent months have not been sufficient to meet essential manpower requirements based upon existing contracts and production schedules and needs of the armed forces. Whether requirements will be met and whether production deficits are to be made up depends upon the success of measures now being undertaken and, failing those, upon the extent to which other more positive action is feasible.

### Areas of Acute Labor Shortage

The extent of the problem is indicated by the War Manpower Commission's classification of areas in terms of degrees of labor shortage, made primarily as a guide for procurement agencies in the placing of war contracts. As of the first of September, 16 District areas, including all of the major centers of aircraft fabrication and shipbuilding, were classified in Group I as areas of current acute labor shortage; that is, as areas in which no additional contracts should be placed or renewals made if alternative facilities for producing the items covered by the contracts are available elsewhere. About 60 percent of the total District population resides in those areas.

Eighteen areas, which include some 16 percent of the total District population, have been classified in Group II as areas of labor stringency in which labor shortages may be anticipated within six months; that is, areas in which only renewals of contracts at present levels of production should be made and in which no new contracts should be

★ *Back the Attack* ★ *Buy War Bonds* ★

placed if alternative facilities exist elsewhere. Certain other areas, including all of California other than those areas specifically listed in the first two groups, are expected to have general labor shortages after six months. No Twelfth District localities are classified as labor surplus areas.

The labor market areas in the seven western states classified by the WMC are as follows:

*Group 1—Acute Shortage:* Eureka, Los Angeles, San Diego, San Francisco Bay, and Stockton, California; Wallace-Kellogg, Idaho; Las Vegas, Nevada; Portland, Oregon; Ogden, Price, Provo, and Salt Lake City, Utah; Everett, Seattle-Tacoma-Bremerton, Spokane, and Vancouver, Washington.

*Group 2—Near Shortage:* Phoenix and Tucson, Arizona; Bakersfield, Brawley-El Centro, Fresno, Modesto, Sacramento, San Bernardino-Riverside, San Jose, Santa Ana, Santa Barbara, and Ventura-Oxnard, California; Boise and Pocatello, Idaho; Reno, Nevada; Eugene, Oregon; Bellingham and Longview-Kelso, Washington.

*Group 3—Future Shortage:* All California Areas not in Groups 1 or 2; Corvallis, Oregon; Aberdeen-Hoquiam, Olympia, and Yakima, Washington.

*Group 4—Labor Surplus:* None.

### Sources of Additional Labor

It is increasingly evident that women constitute the only significant remaining local source of labor. There are very few men in the District who are not now in the labor force who could be expected to seek employment. In California, for example, the number of male wage-earners in factories increased by only 6,000, or less than 1 percent, from March to July 1943. During the same period the number of women factory wage-earners increased by 34,000, or 16 percent. Of that number, 21,000 entered durable goods industries, including aircraft plants and shipyards, to bring the total in that classification to 169,000, compared with a total of 9,000 two years earlier. Available information indicates that a proportionately larger number of women are employed in the Puget Sound area and in some other localities of the District where the labor situation has been particularly tight. Although drawn upon to some extent, the reserve of housewives and other women not yet working remains large. How many can be induced to accept jobs depends upon the development of additional facilities for child care, off hour shopping, improved transportation, and the like, in addition to economic and patriotic considerations.

A less important source of labor has been found in the scheduling of split or "Victory" shifts, adopted principally in aircraft plants. This practice enables men employed full time elsewhere, and housewives and others with responsibilities preventing their acceptance of full time jobs, to take part time employment. The lengthening of the work week in areas where a 48-hour week has been ordered may release some workers, but many concerns not already on, or close to, a 48-hour week in those areas have filed requests for exemptions. Current estimates of the number of workers being made available by the introduction of the 48-hour week are considerably below the original estimates or forecasts.

The most optimistic estimates of the potential local labor force indicate a need for substantial numbers of

additional men, who, for the most part, can be obtained only through in-migration. The rate of in-migration to industrial areas in the western states has diminished in recent months, while out-migration has increased. The realization of future net in-migration of any significance would involve more intensive recruitment in outside areas of labor surplus and, in order to keep the return movement within bounds, would require the provision of additional housing and other community facilities. Existing facilities are already being used beyond capacity in most areas of acute or imminent labor shortage.

### Shifts of Activities Out of Labor Shortage Areas

Steps to lessen manpower requirements include shifts of activities out of critical labor areas. Contract cancellations with the objective of displacing labor for subsequent employment in nearby essential industries are reported to have met with but limited success in the District. The displaced workers were relatively few in number and under no compulsion to go where they were most needed. Moreover, the extent to which contracts cancelled in the western states could be placed elsewhere depends upon the facilities available. Facilities for aircraft fabrication and shipbuilding in the rest of the country are, in general, being utilized intensively. Since these two industries account for 92 percent of the war supply contracts in the Twelfth District, it is evident that no widespread shift of contracts from West Coast plants can be readily effected, and that the completion, in facilities available elsewhere, of some other types of District supply contracts would not release a significantly large number of workers.

Additional subcontracting to firms outside of critical areas, and the establishment of branch plants in outlying areas are two devices which have been used successfully in utilizing labor which is not available to industry in a major industrial area. As related to the whole manpower problem, however, it has become evident that the dispersion of parts-making or of facilities, while helpful, cannot be regarded as a major solution.

### Labor Utilization

In view of the limitations upon increasing the supply of labor in industrial centers, the principal hope of maintaining essential production lies in the more efficient utilization of labor, both within individual plants and

### Distribution and Trade—

Index numbers, 1935-39 daily average=100	With Seasonal Adjustment			Without Seasonal Adjustment				
	July	June	May	July	June	May	July	
<b>Retail Trade</b>								
Department Store Sales (value)								
Twelfth District . . . . .	p199	200	187	166	p165	184	180	138
Southern California . . . . .	p195	199	192	164	p166	183	182	140
Northern California . . . . .	p186	179	166	148	p152	165	160	122
Portland . . . . .	p205	203	194	169	p174	194	188	143
Western Washington . . . . .	p241	245	224	216	p199	227	218	179
Eastern Washington and Northern Idaho . . . . .	p176	183	167	147	p156	173	169	129
Phoenix . . . . .	p232	235	204	186	p176	200	209	141
<b>Carloadings (number)<sup>1</sup></b>								
Total . . . . .	p118	107	116	116	p120	115	117	118
Merchandise and Misc. . . . .	p118	123	127	115	p126	131	120	124
Other . . . . .	p118	85	101	117	p112	95	114	111

<sup>1</sup> 1923-1925 daily average = 100.

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among plants and industries within an area of labor shortage. Attempts have been made to secure additional workers at points where they are most needed and to use the available labor force more effectively by encouraging workers to enter industries and plants where added employment is most urgent. These attempts have been partly nullified, however, by the tendency of workers to seek the highest available wage rates and the most satisfactory working and living conditions. Consequently, the District-wide shortage of workers has been aggravated by maldistribution of the labor force, and it is the correction of this aspect of the manpower problem which is now receiving the closest attention.

### **Better Labor Utilization Within Plants**

A particular plant may be over-manned, or not using its labor most efficiently, in relation to its current level of output. This may be caused by labor hoarding; that is, by the employment, in anticipation of possible future needs, of more workers than are currently necessary. It may also be the result of such factors as unsatisfactory material flows, production methods and controls, supervision, working conditions and wage systems; union restrictions; and excessive absenteeism and labor turnover. Some of these problems are the responsibility primarily of management, others of labor, and still others, such as the effects of housing and transportation conditions upon absenteeism, extend to the community.

Labor hoarding, especially in plants with cost-plus contracts, is being investigated by the WMC. One result of its investigation, but also of the acute labor shortage at nearby aircraft plants, was a directive issued in August ordering shipyards in the Puget Sound area to reduce their employment within two weeks by from 10 to 20 percent.

### **Better Labor Utilization Within Areas**

The utilization of labor throughout an area is affected by any action which improves the utilization of labor within an establishment. Either the need for additional labor in order to increase output is diminished or labor is made available for other plants. To achieve the best distribution of labor among plants and industries within an area, however, requires more than the most efficient use of labor within each individual establishment. A plant in which labor is being employed fully and efficiently may still be over-manned when considered, as it must be under conditions of full employment in wartime, in relation to labor requirements throughout the area. It is over-manned if the maintenance of its output at current levels is less important than the expansion in output of other concerns offering alternative employment.

To improve significantly the utilization of labor within an area is considerably more difficult than to do so within a single plant, as it may require the shifting of workers from one plant or even from one industry or occupation to another.

Wage rates are one of the factors having an important effect upon the distribution of employment. A significant

recent wage adjustment was made on September 7, when the War Labor Board approved a revised job classification and wage rate schedule at the Seattle and Renton plants of the Boeing Airplane Company. These revisions will permit increases of more than \$1 per day for about three-fourths of the Boeing employees. It is hoped that the increase, in conjunction with the 10 to 20 percent reduction in shipyard employment ordered in August will provide a substantial part of the 9,000 additional aircraft workers reported to be needed.

The problem of labor distribution, however, cannot be solved by wage adjustments alone. Working conditions and housing, transportation, and other living conditions also have significant effects upon choice of employment. In addition, the demands of war production upon the labor force are so great and so urgent that restrictions, mostly voluntary as yet, upon employer and employee actions in the labor market are necessary.

Decisions of employers and workers in the labor market have already been limited to some extent because of wartime conditions. Controls over wage increases, principally through the WLB, have been adopted. Labor stabilization agreements require employees in essential activities to obtain certificates of availability before accepting new jobs. Some shifts of workers to essential work from nonessential activities have been induced by Selective Service instructions to local boards listing certain nondeferrable occupations.

### **The New War Manpower Program**

These steps have been of benefit but are insufficient to meet the current manpower problem. A more comprehensive and unified plan to improve the distribution of the labor supply in major industrial centers on the Pacific Coast was announced September 4 by War Mobilization Director Byrnes. The Byrnes plan provides for manpower priorities for essential work and will involve an intensive campaign to move workers where they are most

### **Production and Employment—**

	Index numbers, 1923-25 average=100							
	With Seasonal Adjustment				Without Seasonal Adjustment			
	1943		1942		1943		1942	
	July	June	May	July	July	June	May	July
<b>Industrial Production<sup>1</sup></b>								
Lumber <sup>2</sup> .....	p141	p138	p132	151	p150	p156	p152	162
Refined Oils .....	—	—	—	—	192	194	188	160
Cement .....	..	145	162	198	..	165	170	217
Wheat Flour .....	126	130	133	148	110	115	117	131
Petroleum .....	—	—	—	—	118	118	117	118
Electric Power .....	p378	385	389	304	p422	413	396	339
<b>Factory Employment and Payrolls<sup>3</sup></b>								
<b>Employment</b>								
Pacific Coast .....	352	345	337	273	355	350	342	276
California .....	417	411	403	264	420	412	405	315
Oregon .....	294	293	277	231	305	305	288	240
Washington .....	250	242	236	215	253	251	245	217
<b>Payrolls</b>								
Pacific Coast .....	648	624	612	439	641	642	629	435
California .....	737	713	704	489	728	726	714	483
Oregon .....	546	530	495	389	556	556	529	397
Washington .....	514	486	479	361	503	510	503	354

<sup>1</sup> Daily average.

<sup>2</sup> 1935-1939 average = 100.

Indexes adjusted to 1941 Census. Revised back figures will be supplied on request.

<sup>3</sup> Excludes fish, fruit, and vegetable canning.

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needed. According to preliminary reports, two committees have been set up in each of the five principal aircraft and shipbuilding centers on the Pacific Coast. The Area Production Urgency Committees are to determine in each locality which of that area's products are most urgently required and will, if necessary, revise production schedules downward. The Manpower Priority Committees are to establish hiring priorities, based upon urgency of products and need for labor, and to control the referral of labor through the United States Employment Service in accordance with these hiring priorities. The Committees include representatives of various Federal depart-

ments and agencies which are interested. The Production Urgency Committees will be headed by the WPB representatives and the Manpower Priority Committees by the WMC members. Employers are under no obligation to hire any particular individual referred to them, and employees, though limited in their choice, will be under no compulsion to accept any particular job. Such factors as wage differentials, housing, transportation, and working conditions will be closely related to the successful operation of the manpower plan. Success will also depend upon employer and employee cooperation as well as upon committee actions.

### Deposit Expansion and the Third War Loan Drive

**T**HE goal of the Third War Loan Drive is to raise 15 billion dollars over a three week period from sales of securities to investors other than commercial banks. With commercial banks excluded from investment participation, this huge financing operation will not result in an expansion of credit. Payments for securities sold in the drive will be made by drawing upon deposits and accumulations of currency. Funds will be shifted from individuals, corporations, institutions and other investors to the Federal Government; there will be no net addition of funds such as results from the purchase of securities by deposit-creating commercial banks.

#### Growth in Twelfth District Member Bank Deposits

The goal of raising as large a total as 15 billion dollars without resort to the commercial banks will be the more readily attained as a result of the marked expansion during the past two years in deposits and currency held by the public. Demand and time deposits, excluding United States Government and interbank accounts, of Twelfth District member banks increased from 4724 million dollars on December 31, 1940 to 5291 million a year later, and to 6943 million on December 31, 1942. Most of the expansion of 2219 million, or 47 percent, during the two-year period, occurred in demand accounts which increased 82 percent. Time deposits increased by only 253 million dollars or 11 percent.

This expansion in deposits has continued during 1943 but the pattern of growth has been somewhat altered. From December 31, 1942 until the eve of the opening of the Third War Loan Drive on September 9, deposits of District member banks are estimated to have increased an additional 1660 million dollars with a much larger proportion of the growth than in the preceding two years taking place in time accounts. Adjusted demand deposits are estimated to have expanded 1200 million dollars, or 28 percent, and time accounts 440 million, or 17 percent.

#### Growth of Money in Circulation

The expansion in deposits has been accompanied by a marked further increase in money in circulation in the District. In the period 1935 through 1939, the annual

average increase amounted to 21 million dollars. In the subsequent three years the annual average expansion approximated 311 million dollars, and in the period December 31, 1942 through September 15, 1943 the increase amounted to 486 million.

#### Purpose of Excluding Commercial Bank Participation in Drive

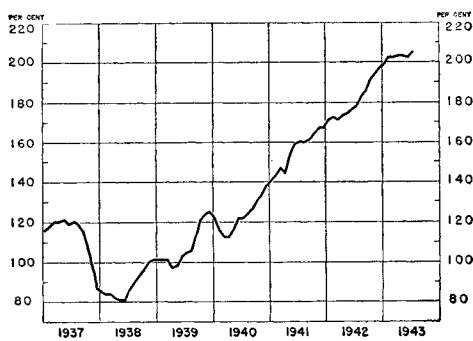
The principal factor in the marked expansion of funds held by the public has been the large net disbursements of the United States Government in the District. They reflect the magnitude of the industrial expansion in the area since 1939 with the accompanying substantial growth in employment and civilian population, as well as the large military establishments and personnel located in the area. But whatever the source of the marked expansion of spendable funds, they constitute a potential inflationary force. The object of restricting sales of securities in the Third War Loan Drive to investors other than commercial banks is to draw exclusively upon the vastly increased funds now held by individuals, business firms, institutions and the like, and to avoid, insofar as possible, further expansion in the money supply. In view of the already huge increase in the money supply, the unprecedented goal established in the present drive should be readily attained. The means are available.

#### Banking and Credit—

Averages of Wednesday figures (millions of dollars)	1943 Aug.	Change From		
		1943		1942
		July	June	Aug.
<b>Condition Items of Weekly Reporting</b>				
<b>Member Banks</b>				
Total loans .....	914	— 1	— 17	— 144
Comm'l, ind., and agric. loans...	449	+ 8	+ 11	— 32
Loans to finance securities transactions .....	39	— 6	— 7	— 2
Real estate loans .....	329	0	— 9	— 46
All other loans .....	99	— 3	— 12	— 64
Total investments .....	3,387	+104	+188	+1,567
United States Gov't. securities..	3,087	+103	+192	+1,557
All other securities .....	300	+ 1	— 4	+ 10
Adjusted demand deposits .....	2,463	+ 46	+ 85	+ 744
Time deposits .....	1,242	+ 24	+ 53	+ 158
United States Government deposits..	436	+ 10	— 34	+ 23
<b>Coin and Currency in Circulation</b>				
Total (changes only) .....	—	+ 62	+131	+ 723
Fed. Res. Notes of F. R. B. of S. F.	1,617	+ 54	+116	+ 651
<b>Member Bank Reserves .....</b>	1,324	+ 20	+ 27	+ 304

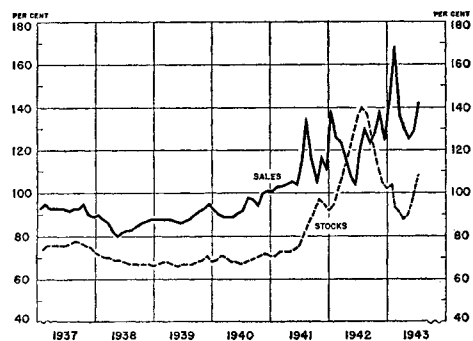
## Summary of National Business Conditions

Released August 25, 1943—Board of Governors of the Federal Reserve System



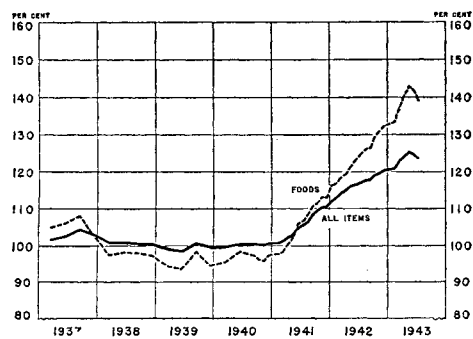
### INDUSTRIAL PRODUCTION

Federal Reserve monthly index of physical production, adjusted for seasonal variation, 1935-39 average=100. Monthly figures, latest shown are for July.



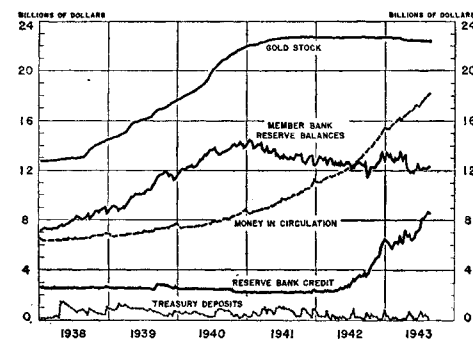
### DEPARTMENT STORE SALES AND STOCKS

Federal Reserve monthly indexes of value of sales and stocks, adjusted for seasonal variation, 1923-25 average=100. Monthly figures, latest shown are for July.



### COST OF LIVING

Bureau of Labor Statistics indexes, 1935-39=100. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for July.



### MEMBER BANK RESERVES AND RELATED ITEMS

Wednesday figures, latest shown are for August 18.

INDUSTRIAL production advanced to a new high level in July following a slight decline in June, both of the changes reflecting chiefly fluctuations in coal production. Maximum food prices were reduced recently with a consequent slight decline in cost of living in July. Retail sales continued in large volume.

#### INDUSTRIAL PRODUCTION

Industrial activity increased in July, reflecting a large rise in mineral production. Output at coal mines advanced sharply from the reduced level in June, production of crude petroleum increased, and iron ore shipments reached the highest monthly rate on record.

In manufacturing industries, output of most durable products and chemicals continued to increase in July, reflecting chiefly a further rise in production of munitions. At meat packing plants and cigarette factories production was also larger in July. Output of leather and textile products had shown small decreases in June and further declines occurred in July. Activity in most other nondurable goods industries showed little change from June to July.

The decline in the value of construction contracts awarded continued during July, according to reports of the F. W. Dodge Corporation. Most of the decline is accounted for by a drop in awards for publicly-financed industrial facilities and for public works and utilities.

#### DISTRIBUTION

Value of retail sales declined less than seasonally in July and continued substantially larger than a year ago. During the first six months of this year sales had averaged about 12 percent larger than in the corresponding period of 1942 and in July the increase was somewhat greater. The higher level of sales this year as compared with last year reflects for the most part price increases. In the first half of August sales at department stores increased by about the usual seasonal amount.

Freight carloadings rose sharply in July and were maintained at a high level during the first half of August. Total loadings were 10 percent higher than the previous month owing to the largest volume of coal transported in many years and shipments of grain and livestock showed a considerable increase over June.

#### COMMODITY PRICES

The general level of wholesale commodity prices showed little change in July and the early part of August.

The cost of living declined somewhat from June 15 to July 15, according to Bureau of Labor Statistics data. Food prices declined by 2 percent as a result of reductions in maximum prices for meats and seasonal declines in prices of fresh vegetables from earlier high levels.

#### AGRICULTURE

General crop prospects improved somewhat during July according to Department of Agriculture reports. Forecasts for the corn and wheat crops were raised 6 percent. Production expected for corn and other feed grains, however, is 10 percent less than last year and for wheat is 15 percent less than the large crop of 1942. Milk production in July was as large as the same period a year ago, while output of most other livestock products was greater.

#### BANK CREDIT

The average level of excess reserves at all member banks, which had been about 1.5 billion dollars in mid-July, declined to 1.2 billion in the latter part of the month and continued at that level during the first two weeks of August. There was some further decrease of excess reserves at reserve city banks, but most of the decline occurred at country banks, where there had previously been little change. Two factors were principally responsible for the decline in excess reserves: an increase in deposits subject to reserve requirements, as funds expended by the Treasury from War Loan accounts returned to the banks in other accounts; and a growth of over 500 million dollars in money in circulation. During the four weeks ending August 18 additional reserve funds were supplied to member banks by an increase of 580 million dollars in reserve bank holdings of Government securities, principally Treasury bills bought with option to repurchase.

During the four weeks ending August 11, member banks in 101 leading cities increased their holdings of Government securities other than Treasury bills by almost 800 million dollars. Of this amount, 570 million represented allotments to banks of new certificates of indebtedness issued in early August. Bill holdings declined as member banks made sales to adjust their reserve positions. Commercial loans increased somewhat over the four week period, but other loans declined.