

# Monthly Review

FEDERAL RESERVE BANK OF SAN FRANCISCO

OCTOBER-NOVEMBER 1945

## Review of Business Conditions—Twelfth District

**C**ONTINUED decline in employment and payrolls in the war industries and some recession of production in certain other important lines of manufacturing have marked Twelfth District business activity during October and November. Employment cutbacks in October were considerably less sharp than during the first month following V-J day, but unemployment has continued to grow and has extended to the smaller communities as well as to the industrial centers. Distribution and trade have been well maintained, however, in most parts of the District in spite of declining employment and more or less widespread work stoppages occasioned by wage disputes in a number of important industries.

### *Industrial employment and payrolls*

Sharply reduced activity in the war industries, together with shutdowns occasioned by labor disputes in certain other industries, has brought the volume of manufacturing employment in the District during the past two months to approximately the levels of late 1941 or early 1942. In the ten weeks following V-J day, employment in District industrial plants shrank by about 400,000, three-fourths of which was in aircraft and shipbuilding plants. These two industries laid off substantially half of their employees between mid-August and the end of October; as compared with their peak in August 1943, employment in these industries declined by approximately 67 percent, from around 900,000 to about 300,000.

Industrial payrolls have declined even more rapidly than employment. In California, for example, payrolls in all manufacturing industries combined, which reached a peak of approximately 50 million dollars per week in September 1943, and averaged about 45 million dollars per week through the year 1944, fell to approximately 22 millions per week in October of this year. The decline has been accelerated during the past few months, reflecting not only the shrinkage of employment but also the reduction in hours of work and consequent loss of overtime rates of pay. Again using California data for illustration, the average work week in all manufacturing industries combined was about 45 hours per week in 1944 and remained near that figure until July of this year, but fell to around 40 hours per week in September and October. Average weekly earnings for all manufacturing industries were slightly above \$55.00 in 1944, maintained

an average close to \$56.00 per week during the first seven months of 1945 and fell to \$48.06 in October. The contrast in certain of the war industries is even more striking. In shipbuilding, for example, weekly hours of work were consistently above the average for all manufacturing industries throughout the war period, and average weekly earnings for shipyard workers regularly exceeded \$65.00 per week from June 1944 to August of this year. In October, the average work week in California shipbuilding plants fell to 38.7 hours, and average weekly earnings in that month were only \$52.18.

### *Labor disputes*

Protracted strikes in the northwestern lumber industry have seriously reduced the output of construction materials and other wood products since early September, while wage disputes and work stoppages in the San Francisco Bay area have involved considerable numbers of industrial and service employees during the past month. Because of their key position in many plants, a strike among the Bay area machinists has caused shutdowns affecting large numbers of miscellaneous factory workers as well as shipyard and general machine shop workers in that area. In southern California disputes concerning wage differentials for repair work have led to strikes in ship repair yards, while a long continued strike of motion picture employees, marked by extreme bitterness and violence, has only recently been settled. Several of the large aircraft companies in this area have recently begun joint negotiations with their employees looking toward an increase in wage rates; one large aircraft concern is reported to have already agreed to a general 15 percent wage advance.

### *Unemployment and labor shortages*

The postwar industrial labor market in the District continues to include both workers without jobs and jobs without workers. There has been some increase in activity during the past two months in a considerable range of miscellaneous manufacturing and some expansion in the trades and services, but new employment opportunities have not offset the loss of jobs in war industry and the release of men from the armed services. Claims for unemployment benefits, including veterans' allowances, have risen rapidly. By the end of November approximately

340,000 such claims were on file over the District, some 240,000 persons were receiving benefits, and benefit payments were running at a rate above four million dollars per week.

Over one-half of the increase of around 300,000 claims since early August occurred in the eight counties of southern California, where such communities as Long Beach, Huntington Park, San Diego and other areas of highly specialized war industry have been particularly affected. During the first three weeks of November, however, the situation in southern California improved somewhat as employment in aircraft plants and shipyards has become more or less stabilized at current levels and miscellaneous industrial activity is increasing. In northern California, on the other hand, where the increase in filing of unemployment compensation claims had been more moderate until mid-October, there was a pronounced upturn in November which was particularly marked in the San Francisco Bay area, reflecting in part the disturbed conditions resulting from wage disputes in a number of important industries.<sup>1</sup>

In the Pacific Northwest, where the first impact of war contract cancellations was largely concentrated in the leading industrial centers, unemployment had spread by the end of November to many of the smaller communities as well. The lumber strike, which began in late September, accentuated this condition. With respect to the filing of claims for unemployment compensation, however, the situation in the Northwest has differed from that prevailing in California, particularly southern California, in that the ratio of claims filed to job lay-offs has been much lower in the Northwest. The contrast was especially marked during the period of heaviest cutbacks in employment shortly after V-J day. Thus in August and September the ratio of initial claims filed to workers displaced from jobs was roughly 40 percent in Washington and Oregon as against 80 percent in southern California. The disposition to register for benefit has become more general in all areas, however, and the number of new claims filed in October and November has far outrun the net loss in employment during those months. This indicates, of course, that many claims were being filed by persons who had been released in the earlier period but who were not then interested in new jobs or had failed to find them on their own.

Those unemployed have not moved into existing job openings because of a variety of factors. Many job openings are in trades and services at lower wage scales than existed in war industry; most openings in manufacturing require either highly skilled or unskilled rather than semi-skilled workers; and both employers and employees have become much more selective in their respective choices of workers and jobs than during the war. Obstacles to the ready flow of labor from place to place arising from housing shortages also are hindering the adjustment of supply and demand in the labor market.

<sup>1</sup> Workers actually on strike are not eligible, however, for unemployment compensation.

### Shipbuilding and aircraft production

The shipyards of the Pacific Coast are about at the end of their war-stimulated building program, and this major source of District employment and payrolls continues to shrink. Deliveries of vessels to the Maritime Commission fell to 14 in November, compared with 28 and 27 in September and October, respectively. During the past month new construction was practically at a standstill in the San Francisco Bay area as all but one major shipyard were shut down by the machinists' strike. Employment in all Pacific Coast yards, including Government establishments, had fallen to about 230,000 at mid-October and to 200,000 a month later.

With reduced working hours following the end of the war, the aggregate number of man-hours worked in privately operated shipyards in California has declined from about 12.5 million per week in the third quarter of 1943 to about 2.5 million per week in October of this year. The proportionate decline in payrolls has probably been even greater. Several of the large Government-financed emergency shipyards have completed their contracts and are in process of being closed down. However, at least two California yards still have a substantial volume of work remaining on their present Maritime Commission contracts which will extend into 1946. One of the larger Portland shipyards, having completed its wartime contracts, is to build three vessels next year for the Maritime Commission to be used in the Asiatic service of the Alcoa Steamship Company. These ships are of modified Victory type design, and their construction is expected to provide peak employment for some 2,500 shipyard workers.

Employment in the 13 largest aircraft establishments in the District declined from around 200,000 at V-E day to 150,000 at V-J day, and to about 78,000 at October 15. By mid-November the major aircraft establishments were employing approximately 76,000 persons. Man-hours worked in California airframe and aircraft parts industries, representing approximately 90 percent of the District total, declined from a peak of around 10.7 million per week in May 1943 to about 6.2 million in May

### Production and Employment—

Index numbers, 1935-39 average=100	With seasonal adjustment				Without seasonal adjustment			
	1945		1944		1945		1944	
	Oct.	Sept.	Aug.	Oct.	Oct.	Sept.	Aug.	Oct.
<b>Industrial production<sup>1</sup></b>								
Lumber .....	p 60	90	95	128	p 66	106	114	139
Refined oils <sup>2</sup> .....	—	—	—	—	217	244	262	230
Cement <sup>2</sup> .....	..	126	122	118	..	133	136	136
Wheat flour <sup>2</sup> .....	130	127	143	117	154	152	143	139
Petroleum <sup>2</sup> .....	—	—	—	—	125	131	139	133
Electric power <sup>2</sup> .....	385	379	395	412	384	397	433	410
<b>Factory employment and payrolls<sup>3</sup></b>								
<b>Employment</b>								
Twelfth District .....	..	161	214	270	..	163	216	273
California .....	176	188	244	312	178	189	245	315
Pacific Northwest ..	..	128	181	222	..	133	185	226
Oregon .....	..	100	149	193	..	103	154	196
Washington .....	..	146	201	240	..	151	204	243
Intermountain <sup>4</sup> .....								
<b>Payrolls</b>								
California .....	318	334	486	666	322	335	489	673

<sup>1</sup> Daily average.

<sup>2</sup> 1923-25 average = 100.

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

<sup>4</sup> In process of revision.

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of this year. By August the figure fell to 4.5 million, and within the next month was cut by half; between September and October there was a further reduction to less than 2.0 million per week.

In making their adjustments to the new situation caused by war contract cancellations following V-J day, the western airframe producers may have reduced their staffs more drastically than was necessary. They have probably also raised employment standards; in any event, some companies have been actively seeking employees in recent weeks.

### Lumber production

The outstanding feature in the District lumber industry during the past two months was the strike among A. F. of L. mill operatives in the Pacific Northwest, which began late in September and has not yet been completely settled. The immediate effect of the strike, which was called to enforce a demand for an increase in minimum hourly wage rates to \$1.10 per hour, was a sharp drop in output. October production of mills of the West Coast Lumbermen's Association, chiefly producing Douglas fir lumber, was nearly 50 percent below the September rate and only about one-third the output of October 1944; November operations were at a slightly higher rate. The decline in output of pine lumber mills was much less, and to some extent followed the normal seasonal pattern. The tie-up of production, which included many plywood producers as well as lumber mills, was reported at the end of November to be in rapid process of settlement in the Douglas fir region, as various groups of employers and operatives reached agreement on a compromise offer by the employers of an increase of 15 cents in hourly wages in place of the 20 cents demanded by the operatives. This would bring the minimum wage in that section of the industry to \$1.05 per hour. In the pine mills the existing minimum rates are reported to be below those prevailing in the West Coast mills, and an offer by the pine mill operators of a 12.5 cent hourly increase has not been accepted by the union leaders who are seeking to wipe out the differential between the two major sections of the Northwestern lumber industry. The California redwood mills were not affected by the strike and have operated in 1945 at a rate substantially equal to that of last year.

In spite of large cancellations of Army and Navy orders following V-J day, mill stocks in the Douglas fir region at the end of October had fallen nearly 100 million board feet, or some 20 percent, below the level of a year earlier; stocks of pine, which were building up from the seasonal low at the end of April, were 133 million board feet, or about 12 percent, below mill stocks in October 1944. Demand has been persistently high, but mills generally have not permitted their unfilled orders to expand because of unwillingness to make commitments for future delivery until wage uncertainties have been cleared up. Relatively few of the logging camps were involved in the A. F. of L. strike and log inventories have been increasing, which will help the situation materially as lumber production gets fully under way again.

### Retail trade

Despite significant declines in industrial employment and payrolls in September and October, retail trade continued at relatively high levels in most parts of the District. Following the usual seasonal pattern, department store sales attained new high ground for the year, and daily average sales exceeded last year's figures by approximately four percent in September and by seven percent in October. District apparel store sales were also higher than last year by eight percent in September and by 18 percent in October. On a seasonally adjusted basis this bank's index of department store sales for October was 245 percent of the 1935-39 daily average, as compared with 231 and 232 in August and September, respectively, and with the peak figure of 256, recorded last February. After seasonal adjustment, sales in the San Francisco, Los Angeles and Seattle areas were higher in October than in September, but among other District centers losses were more numerous than gains.

At the end of August the larger department stores of the District reported the dollar value of their inventories as about 9 percent higher than a year earlier; by the end of October merchandise stocks were only 5 percent above a year earlier. There was considerable variation in inventories among departments, with supplies in many classifications below last year's. The greatest year-period reductions at the end of October were in departments sell-

### Distribution and Trade—

Index numbers, 1935-39 daily average=100	With seasonal adjustment				Without seasonal adjustment				
	1945		1944		1945		1944		
	Oct.	Sept.	Aug.	Oct.	Oct.	Sept.	Aug.	Oct.	
Department store sales (value)									
Twelfth District	245	232	231	229	254	243	210	239	
Southern California	265	233	231	243	266	241	213	243	
Northern California	224	221	212	214	232	220	193	221	
Portland	227	229	211	218	239	257	197	230	
Western Washington	281	260	275	275	292	287	256	285	
Eastern Washington and Northern Idaho	178	224	228	169	241	250	202	230	
Southern Idaho and Utah	228	232	257	208	260	250	214	234	
Phoenix	261	320	319	234	285	281	223	254	
Carloadings (number) <sup>1</sup>									
Total	93	105	103	106	110	121	118	125	
Merchandise and misc.	125	121	123	..	148	135	148	..	
Other	79	80	86	..	88	97	96	..	

<sup>1</sup>1923-25 daily average = 100.

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### Banking and Credit—

Averages of Wednesday figures (millions of dollars)	Change from			
	Oct.	1945 Sept.	Aug.	1944 Oct.
Condition items of weekly reporting member banks				
Total loans	1,108	+ 16	+ 17	+ 127
Com'l., ind., & agric. loans	549	+ 17	+ 31	+ 54
Loans to finance transactions in:				
U. S. Government securities	109	— 5	— 19	+ 65
Other securities	55	+ 2	+ 4	+ 2
Real estate loans	290	— 1	0	— 5
All other loans	105	+ 3	+ 1	+ 11
Total investments	5,541	+ 1	+ 8	+1,020
U. S. Government securities	5,140	+ 3	+ 7	+ 956
All other securities	401	— 2	+ 1	+ 64
Adjusted demand deposits	3,406	+ 71	+201	+ 468
Time deposits	1,934	+ 36	+ 78	+ 395
United States Government deposits	749	—110	—291	+ 90
Coin and currency in circulation				
Total (changes only)	—	+ 62	+140	+ 607
Fed. Res. Notes of F. R. B. of S. F.	3,127	+ 63	+135	+ 580
Member bank reserves	1,899	+ 49	+124	+ 297

ing men's clothing, women's and children's hosiery and underwear, household appliances, most kinds of piece goods, and shoes.

### **Bank deposits and reserves**

Demand deposits adjusted and time deposits of Twelfth District member banks increased further in November, despite the sale of Victory Loan securities to individuals beginning October 29. Gains were smaller in November than in October, however, and in the week ending November 28, time deposits failed to increase for the first time in 1945. The inter-drive gain in demand deposits adjusted from July 3, the low point subsequent to the Seventh Drive, to November 28 appears to be about the same or slightly larger in amount than the increase in the corresponding period in 1944 between the Fifth and Sixth Loan Drives.

The demand for currency declined sharply in November, net payments into circulation in the District of 115 million dollars in October being succeeded by a net withdrawal of 13 million in the next four weeks. Since the end of the war in mid-August, currency in circulation has risen by about 200 million dollars, compared with a 275 million dollar increase in the same period in 1944.

Disbursements from the Treasurer's account at this bank continued in excess of Treasury collections during the past two months. Treasury spending for munitions has decreased markedly in total and presumably in the District as well, but expenditures for subsistence, pay, and allotments of service personnel have been much less affected by the end of the war. They are of particular importance in this District because of its relation to the Pacific area.

In November, the net flow of funds into the District on account of Treasury operations was offset by an out-

flow of equal size on account of other commercial and financial transactions. Even so, District member bank reserves rose by some 140 million dollars from the end of September to late November. This was accomplished through the sale of Treasury bills to and member bank borrowing from the Reserve bank. Bank borrowing, which made its first appearance in any noticeable amount for over a decade in April of this year and continued into June, again occurred in some volume in late October and reached 80 million dollars by late November.

### **Loans and investments**

A small rise in Government security holdings of member banks in October was followed by an accelerated increase in November. This was a part of the usual increase associated with loan drives, and occurred almost entirely in bond holdings; the amount of Treasury bills held by member banks continued to decline.

Member bank loans have also increased in recent months. A considerable part of the November increase is accounted for by loans for purchasing or carrying Government securities, but commercial, industrial and agricultural loans of weekly reporting member banks have also been rising. This is a seasonal gain in part, but they have risen by almost 100 million dollars since their 1945 low in May, compared with a corresponding increase of less than 40 million dollars a year earlier. This rise in business loans has occurred during a period when loans to business for war purposes have been declining.

**Correction:** The August-September MONTHLY REVIEW, in the article "Government Security Sales," erroneously stated the Victory Loan goal for sales to nonbank investors to be 14 billion dollars. The correct goal was 11 billion dollars.

## **Surplus Property Disposal**

**T**HE Surplus Property Act of 1944 grew out of recommendations made in the Baruch-Hancock Report of February 1944. The bulk of this report consisted of detailed suggestions for settling terminated war contracts and for disposing of surplus war property, at that time the two chief concerns of business about reconversion. After the first World War, failure to establish policies and procedures in advance for handling surplus war goods had hampered reconversion. Congress in drawing up and passing the Surplus Property Act was motivated by a desire to avoid similar occurrences that might prove distressing to business after the second World War.

### **Significance of disposal problem**

By July 1946, Government-owned property costing some 30 billion dollars is expected to have been declared surplus. This figure excludes heavy ordnance, merchant vessels, and property located in foreign countries. The

final total may be considerably larger. It may include much of the emergency merchant fleet and many of the yards in which it was built; factories to produce airplanes and munitions; machine tools, industrial equipment and materials of many kinds; war housing and community facilities, such as water and sewage systems, roads, and other structures; vacant land used in training, or from which barracks, temporary houses or warehouses, etc., have been removed; and a wide variety of consumers' goods to the value of perhaps 10 billion dollars.

Congress, aware of the consequences of an unwise or irresponsible disposition of large quantities of surplus property, set forth twenty general objectives at the beginning of the Surplus Property Act of 1944. Important stated objectives are to discourage monopolistic practices, aid small business, foster family-type farming, help veterans become proprietors of their own farms or businesses or professions, prevent speculation, protect prices, create

postwar employment, utilize normal trade channels, foster wide distribution of surpluses to consumers at fair prices, move the property promptly, and obtain a fair value for the Government. The objectives overlap and, since they reflect attempts to protect or benefit many interests, conflict one with another under some circumstances.

To carry out these objectives, the Act created a Surplus Property Board, later changed to a single Administrator, empowered to supervise the handling, care, and disposition of declared Government surpluses.

The Administrator and the disposal agencies named by him or designated in the Act to dispose of various classes of surplus property acquire jurisdiction only upon official declaration by an owning agency that specified property is surplus. This circumstance accounts in part for the failure of disposal agencies to offer property for sale, even where quantities in excess of apparent needs are lying idle in military and other stores. Additional factors contributing to the discrepancy between visible surpluses and open sales offers are the necessity for observing a series of priorities in the right to purchase surpluses and a high regard for those objectives of surplus property disposal having to do with prevention of monopoly, protection of prices, and utilization of customary channels of trade. Misunderstanding and disappointment have arisen from the common disqualification of individuals other than businessmen from buying consumers' goods directly from the disposal agencies.

#### ***Disposal agencies***

With certain major exceptions, the Surplus Property Administrator is responsible for naming disposal agencies for various classes of surplus property and for developing general policies and practices to accomplish the objectives of the Act. One disposal agency is designated in the Act, the Maritime Commission for merchant vessels and maritime property wherever located. In addition, the Act reserves to the War Food Administration, now succeeded by the Department of Agriculture, complete control over policies in disposing of surplus agricultural commodities. In both cases, the Surplus Property Administrator has only nominal authority over disposal of these classes of surplus property.

Congress retained the power to review proposed disposals of plants to manufacture aluminum, magnesium, synthetic rubber, chemicals, aviation gasoline, and iron and steel, and of pipe lines and facilities used for transporting oil, of patents, processes, techniques and inventions, if the plant, facility, patent, etc., cost \$5,000,000 or more. In addition, advance clearance with the Attorney General is required in the sale to private interests of plants or other property costing \$1,000,000 or more, and of patents, processes, techniques, or inventions, irrespective of cost.

Under the authority of the Surplus Property Administrator, the Department of State has been empowered to dispose of the 8 to 12 billion dollars of surplus property that is located in foreign countries, except maritime property. Similarly, the Department of Interior has general

jurisdiction over non-maritime surplus property in territories and possessions, except food and agricultural commodities, for which the Department of Agriculture is responsible, and airplanes, for which the Reconstruction Finance Corporation is disposal agency.

The Reconstruction Finance Corporation likewise is disposal agency for the great bulk of non-maritime property, other than agricultural commodities, located in the continental United States. Its authority covers most producers' goods, including many already owned or financed by the Corporation or its subsidiaries, the Defense Plant, Rubber Reserve, Defense Supplies, and Metals Reserve Corporations, and most consumers' goods. Originally the Treasury Department was the disposal agency for consumers' goods, then the Department of Commerce, and, since November 5, 1945, the Reconstruction Finance Corporation through the War Assets Corporation.

There are a few exceptions, however, to the authority of the Reconstruction Finance Corporation. Surplus housing, including community facilities that are integral parts of housing projects, are in the hands of the National Housing Agency for disposal. Community facilities not connected with Government-owned housing projects are to be disposed of by the Federal Works Agency. This agency also is charged with disposing of land that is not essential to war housing or industrial plant use, other than agricultural and forest land and grazing and mineral land, which are to be handled by the Departments of Agriculture and Interior, respectively. These exceptions, it is estimated, account for less than 10 percent of the expected surpluses, on a cost basis.

#### ***Preference to veterans***

First priority in the acquisition of surplus property belongs to agencies of the Federal Government, followed by state and local governments and by tax supported and non-profit institutions. In general, these preferences are observed by setting up reserves of surplus declarations to take care of preferential buyers.

Among other buyers, veterans of World War II who wish to establish and maintain their own small business, professional, or agricultural enterprises are entitled to preference in the acquisition of suitable property. The law charges the Surplus Property Administrator with prescribing regulations that will afford such preference "to the extent feasible and consistent with the policies" of the Act. To discharge this responsibility the Administrator designated the Smaller War Plants Corporation to issue certificates to qualified veterans, with the disposal agencies or the Administrator determining what is feasible and consistent.

The Smaller War Plants Corporation investigates the eligibility of the veteran for a certificate of preference and directs him to the appropriate disposal agency. If the property the veteran wants is not in surplus stock, the Corporation, upon notification, will make an effort to obtain it for the veteran as soon as possible. If requested, the Smaller War Plants Corporation may act as agent for a veteran in purchasing surplus property that is located

at some distance from the veteran's home or place of business.<sup>1</sup>

In addition, the Surplus Property Administrator, who had already instructed disposal agencies to hold suitable quantities of surplus property in reserve for filling purchase orders of government agencies, has ruled that purchases under veterans' certificates may also be made from these reserves.

In the case of agricultural property, the veteran applies to the Department of Agriculture, which certifies his requirements to the Smaller War Plants Corporation, which in turn acquires the agricultural property for him, or helps him acquire it, in the usual manner.

Veterans' preference in the purchase of real estate suitable for residential, agricultural, or small business use is administered directly by the disposal agency for the class of real estate desired. In this instance, and only in this instance, the property need not be related to establishing or maintaining a business.

To enjoy preference in the purchase of surplus property other than real estate, the veteran must make a showing that the purchase is suitable to the establishment or maintenance of his own small business. A small business is defined as one having 500 or fewer employees, or one that is found by the Smaller War Plants Corporation, with the approval of the Surplus Property Administrator, to be small. A business is considered to be the veteran's own if more than fifty percent of the invested capital or net income is owned by or accrues to the veteran.

#### **Encouragement to small business**

Strengthening small business and preserving its competitive position is one of the declared objectives of surplus property disposal. The Surplus Property Act charges the Administrator with devising ways and means of preventing discrimination against small business in the disposal of surplus property and specifies positive aids to small business. The size of lots in which property is offered shall, under the Act, be not smaller than is consistent with commercial practice, but within this limitation, purchasers of given amounts shall be afforded a reasonable opportunity to purchase in preference to prospective purchasers of larger amounts. Despite this preference, the small businessman may be handicapped when sales, particularly sales of used goods, are made at some distance from his place of business, or when mixed lots are sold.

The Act also provides that the Smaller War Plants Corporation shall present information concerning the needs and problems of small business to the Surplus Property Administrator and to the owning agencies and the disposal agencies; that the Corporation may purchase surplus property for resale to small businesses; and that the Corporation may make or guarantee loans to small business enterprises in connection with the acquisition, conversion, or operation of surplus plants or facilities,

<sup>1</sup>Dissolution of the Smaller War Plants Corporation, effective January 28, 1946, was announced while this article was in press. According to the announcement, the Corporation's assignments in surplus property disposal are to be assumed by the Reconstruction Finance Corporation, which will also take over the field offices and much of the personnel.

and, in cooperation with the disposal agency, may arrange for sales of surplus property on a credit or time basis.

Under this authority, the Smaller War Plants Corporation regularly acquires surplus property for small businesses through exercise of its priority as a Federal Agency. Such assistance is extended only to established small concerns, thus differing from veterans' preference for which veterans wishing to establish businesses, as well as those already in business, are eligible.

#### **Sales in rural areas**

Farmers and farmers' cooperative associations, under the Act, are to be assured equal opportunity with others to purchase surplus property. The Administrator has directed that property having general farm use be placed in the hands of distributors who declare that it will be sold in rural areas. Community auctions, if certified by the Department of Agriculture, also may be utilized. Trucks, machinery, and equipment are to be set aside for disposal to farmers and farmers' cooperatives, outside the regular allocation procedures, upon representation by the Department of Agriculture that shortages of such trucks or other equipment threaten farm production.

#### **Real estate**

Congress set forth detailed instructions for the disposal of real estate. Some criticism had been aroused by sales of surplus real estate that occurred before passage of the Act, which may account for the legislative attention to particulars. Former owners are entitled under the Surplus Property Act to re-acquire their property, in substantially the identical tracts, at prices no greater than the amounts at which they sold to the Government, with adjustments for increases or decreases in value resulting from Government action, or at market prices, whichever are the lower. If the real estate is not declared surplus, or is bought by Federal, state, or local government agencies through their over-riding priorities, the former owner may be offered other surplus property in the same area for purchase at private sale. If the real estate upon becoming surplus is classified as suitable for uses other than those to which the former owner put it, and the former owner indicates that he does not wish to re-purchase it, he may likewise be offered other surplus property in the same area.

After the former owner, the former tenant of agricultural land has preference in purchase. Remaining surplus agricultural property is to be subdivided into economic family-size units for general sale. Non-agricultural land similarly is to be subdivided into units of a size and character deemed by the disposal agency to be appropriate to the use for which the land is now held to be suited.

After former owners and agricultural tenants, veterans have preference over non-veterans in the purchase of land suitable for agricultural, residential, or small business purposes. The spouse and children of deceased former owners and veterans succeed to the respective preferences.

### *Durable goods*

The most important statutory directives and administrative regulations affecting domestic disposal of surplus industrial property and other producers' goods relate to preserving private business values, preventing the creation or strengthening of monopolies, and encouraging independent businesses. Quantities sold, prices or financial arrangements under which they are sold, and selection of parties to whom they are sold affect the success of the disposal program in terms of these criteria.

The sale of plants and other producers' durable goods in too large quantities might create privately owned excess capacity in some industries from which it would take years to recover. Too cautious a policy, on the contrary, by withholding plant and equipment from productive use, might unnecessarily prolong wartime scarcities and adversely affect the standard of living.

Sale or lease of surplus producers' goods exclusively or largely to dominant concerns in an industry would tend to strengthen their dominance, possibly to the point of fostering monopoly. Often, however, the dominant concerns are able to make the best offers, either in price or in terms of payment. In recognition of this situation, the Administrator has directed the Reconstruction Finance Corporation to consider seriously offers which would result in a lower money return if acceptance of such offers would help get plants into civilian production quickly and enlarge the contribution of small businesses and independent operators. Plants also may be sold or leased at prices lower than the highest offers if the lower bid involves a kind of operation expected to result in greater employment in the plant.

Many of the current discussions, controversies, and campaigns of advocacy launched by various parties at interest center around disposal of surplus producers' goods. Recent examples include representations to Congress by spokesmen for the integrated oil companies urging that the Big Inch and Little Big Inch pipelines be closed down or used for purposes other than transporting oil. This position, which some of the eastern coal producers also support, is opposed by persons speaking on behalf of non-integrated oil companies and consumers. Groups stated to represent machine tool manufacturers have proposed that Government-owned tools be withheld

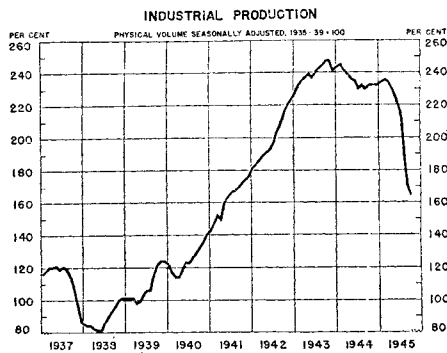
from use in order to preserve or improve future markets for new machine tools. Another example, on a different level, is the current effort to persuade military agencies to release as surplus large amounts of scarce building materials alleged to be in their possession.

### *Nondurable goods*

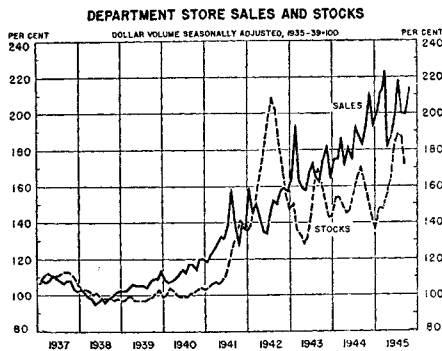
Problems surrounding disposal of nondurable goods are of a somewhat different order than those related to producers' goods. If, as appears to be the practice, utilization of customary trade channels and avoidance of price disturbance are the most important objectives, the chief problems concern prices and price differentials between sales to dealers at different levels in the distributive process. Continued existence of some ceilings on prices or on mark-ups complicate the practical difficulties.

The Department of Agriculture, in disposing of surplus farm commodities, is concerned chiefly with maintaining prices. The Act, indeed, forbids sale in the United States at prices less than those applicable to sales by the Commodity Credit Corporation or current market prices, whichever are higher. Quantities sold are also limited by reference to allowable amounts under rules governing the Commodity Credit Corporation. Processed agricultural commodities are generally offered first to the original processors, then progressively to enterprises occupying positions nearer the retail level in the chain of distribution until sale is effected or the commodity is sent to stockpile or sold for salvage.

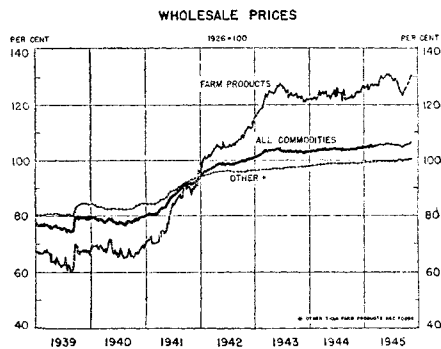
If the primary purpose of planned surplus property disposal is to protect business from the unpleasant consequences of unplanned sale experienced after World War I, the Surplus Property Act of 1944, by and large, appears to be effective. Most of the non-administrative problems within the operation of the Act originate in conflicts between different business interests, or between established and would-be business interests, rather than between business interests and non-business interests. With the exception of government and related priorities in purchases, and anti-monopoly policies, non-business interests are not, in practice, important considerations. As a consequence, surplus property disposal to date has not been notably effective in counteracting inflationary tendencies or in augmenting supplies of scarce goods, the two possibilities with which consumers are chiefly concerned.



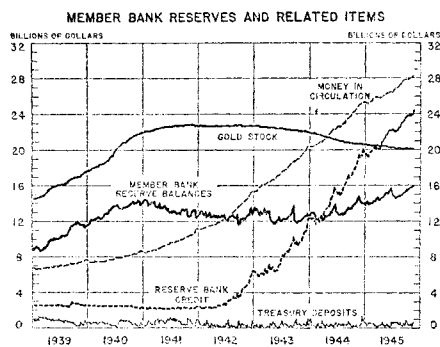
Federal Reserve index. Monthly figures, latest shown is for October.



Federal Reserve indexes. Monthly figures, latest shown are for September (stocks) and October (sales).



Bureau of Labor Statistics indexes. Weekly figures, latest shown are for week ending November 17.



Wednesday figures, latest shown are for November 14.

### National Summary of Business Conditions

Released November 26, 1945—Board of Governors of the Federal Reserve System

**I**NDUSTRIAL output declined somewhat further in October, but in the early part of November production in important basic industries increased. Value of retail sales continued to advance considerably in October and early November reflecting in part small increases in prices.

#### INDUSTRIAL PRODUCTION

Output at factories and mines continued to decline in October reflecting a further curtailment in munitions activity and reduced production as a result of industrial disputes in some industries. The Board's seasonally adjusted index decreased 4 percent in October, and at 164 percent of the 1935-39 average the index was at the same level as in the middle of 1941. In the first half of November, output in such basic industries as coal, coke, petroleum, iron and steel, and automobiles was above the October level.

Activity in the machinery and transportation equipment industries showed only small declines in October in contrast to the sharp reductions in recent months when most of the war production in these lines had been terminated. Activity at automobile factories rose substantially in October, and there were also important increases in output of civilian products in other reconverted factories.

Steel production was reduced in October as a result of a temporary curtailment in coal supplies, but, since the end of October, steel mill operations have increased considerably. Wage-rate disputes in the West Coast lumber region resulted in a reduction of 18 percent in total lumber output in October.

Output of nondurable goods as a group was maintained in October. Further reductions in output of explosives and aviation gasoline and other products used for war purposes were offset by increases in output of many peacetime products.

Output of coal and crude petroleum decreased sharply in the early part of October as a result of industrial disputes. Since the last week of October, production of these minerals has increased considerably; in the early part of November bituminous coal production was at the highest rate since the spring of 1944.

#### EMPLOYMENT

Employment in munitions industries and in Federal war agencies declined further in October, while in most establishments engaged in civilian activities, employment increased. Employment at automobile factories gained about 10 percent in October, and there were important increases in some other manufacturing lines, in construction, and in the trade and service industries. Employment at coal mines dropped temporarily as a result of work stoppages.

#### DISTRIBUTION

Distribution of commodities to consumers continued to increase in October and the first half of November. Sales at retail stores selling both durable and nondurable goods were about 15 percent higher than a year ago. At department stores, sales advanced 8 percent from September to October, according to the Board's seasonally adjusted index, and, on the basis of the rate of sales during the first half of November, a new peak is indicated this month.

Railroad shipments of revenue freight have increased since the early part of October, although they usually decline during this season, and in the middle of November they were almost as large as in the same period a year ago.

#### COMMODITY PRICES

Wholesale prices of farm products and foods continued to advance from the middle of October to the middle of November and reached the previous peak levels prevailing in June. Prices of cotton, grains, and various other products were above the June levels, while prices of fresh fruits and vegetables were below the earlier seasonal peaks. Butter prices rose to the new maximum level after the subsidy was discontinued in October; the subsidy on flour was increased for the month of November.

Maximum prices for cotton goods, building materials, and various other industrial products were raised somewhat further, while in certain other cases, like nylon hosiery, reductions in maximum prices were announced. The prices announced for new passenger cars were close to 1942 levels, which were substantially above 1939 prices.

#### BANK CREDIT

Since the end of hostilities the rate of monetary expansion has slackened, reflecting reduced Government expenditures. Government war loan accounts at member banks in leading cities were reduced 5.1 billion dollars between August 15 and November 14, compared with a decline of 7.8 billion in the same period last year. Adjusted demand deposits at these banks increased 2.1 billion in the three months, compared with 4.5 billion last year. The growth in time deposits was only slightly less than in the same period a year ago. Currency in circulation has also grown at a much slower rate; during the past three months the increase was less than half that of the same period last year.

With reduced expansion in member bank required reserves and in currency, Reserve Bank credit has increased more slowly than in previous interdrive periods. A part of the increase has been in advances to member banks. Member bank excess reserves have increased somewhat and at 1.2 billion dollars are larger than usual at this stage of war loan drives.

Commercial loans at reporting banks, both those in New York City and outside, have increased somewhat more than the usual seasonal amount. Since the beginning of September these loans have grown 650 million dollars compared with 340 million during the same period of 1944. Loans for purchasing and carrying United States Government securities, though contracting as usual in periods between war loan drives, continued well above previous interdrive levels. By mid-November such loans both to brokers and dealers and to other customers were starting to expand in connection with the current drive