THE IMPACT OF THE WAR ON THE PENNSYLVANIA ECONOMY

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The year 1943 bears evidence of having been one of climax in terms of many effects of the war upon the economic development of Pennsylvania. In broad outline at least it is now possible to observe as well some of the significant long-range trends in wartime economy. The productive capacity of the state and likewise of the nation apparently reached its near peak in 1943. This was true in terms of volume of production, efficiency of productive units, and extent of employment of labor and machines. Many new plant facilities were completed during the year, but few new projects were undertaken. Building contracts for factories, public works, and utilities in the Philadelphia area, for example, suffered an average decline of over fifty per cent from 1942 levels. By the end of 1943 existing industrial capacity was on the whole being fully utilized.

Within a year the major "headaches" connected with conversion to war production had been solved. Not only had new plants or additions been erected and machines installed, but also the necessary new labor supply had been trained. Manning tables had been worked out with selective-service officials which provided a reasonable degree of stability in the employment of war workers. Material shortages were no longer as common as in the past. This is not to say that problems did not remain. They were, however, largely of a local variety influenced by conditions not common to the state as a whole. Pennsylvania was giving the near maximum of its great economic power and resources in hope of victory by the end of 1943. Records tumbled in every field of economic activity. Industrial production in the Philadelphia Reserve Bank district averaged sixteen per cent over 1942. In the Pittsburgh industrial district the average climbed after a midyear slump to

2 Ibid., February 1, 1944.
In the state as a whole, according to a report of the Bureau of Business Research at the Pennsylvania State College, production in the durable-goods industries rose twenty-six per cent. It is important to note that the expansion was primarily in the war-sponsored heavy or durable-goods industries. In the Philadelphia area an expansion in shipbuilding of fifty-one per cent led the advance. The average increase in production of consumer goods by the so-called light industries was but two per cent; in many instances there were actual declines in this category. In the Pittsburgh region the greatest gains were in steel, plate glass, shipbuilding, and allied activities. The belching furnaces of the Smoky City were operating at a capacity of over a hundred per cent during 1943 and producing about twenty-three per cent of the steel necessary to arm America. In spite of the rise of many new steel plants in other parts of the country, Pennsylvania as a whole produced thirty-one per cent of the nation’s total, an increase from slightly more than twenty-eight per cent in 1939.

Among the foremost builders of warships in the United States was the Philadelphia Navy Yard, which launched in 1940 the Washington and in 1943 the New Jersey, one of the largest battleships ever constructed. Destroyer escorts, minelayers, tank-landing ships, seaplane tenders, and destroyers were other products of this great yard. Landing craft, some in time for the invasion of Sicily, were turned out not only at the Philadelphia Navy Yard but also at the Dravo Corporation plant in Pittsburgh and the American Boiler Works in Erie. At the century-old Cramp Shipbuilding Company yards at Philadelphia numerous other craft, including cruisers, were built. Navy lighters were constructed at almost the same spot in Erie where Captain Perry built the fleet which won the Battle of Lake Erie. The Sun Ship yards, credited with being the largest privately owned in the world, have produced a large percentage of tankers as well as many cargo vessels. Industries of this type did not slump in 1943. It was their best year.

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3 *Pittsburgh Business Review*, University of Pittsburgh, January 31, 1944.
5 Special report on steel production prepared by Tom Campbell, Pittsburgh regional editor for *The Iron Age*. 
The production of consumers goods, however, was another story, for what the battle fronts needed in the way of equipment could not wait upon the comforts of the civilian. For the state as a whole the production of such goods remained about stationary, according to the Pennsylvania Business Survey. The slowly dwindling stocks of department and other stores, especially those dealing in hardware, electrical appliances, and similar items, bore evidence of the extent of the shortages. Wholesale inventories of electrical appliances, for example, ran thirty-one per cent under 1942, and wholesale drygoods inventories were down ten per cent. In many cases new ersatz commodities had replaced original metal, rubber, and other products. Merchants in some instances sought salvation through miraculous shifts from electrical appliances to furniture, from auto supplies to work garments, or from hardware to women's clothing.

There were other indications of changing economic activity in 1943, though many were tempered with evidence that peaks had been achieved. The trend of employment, while it lacked the spectacular effect which had characterized early stages of the war boom, was still upward. For the state it was five per cent over 1942, with a total of about one and a quarter million workers in manufactures, mainly for war purposes. The increases in employment continued to be substantial in the heavy industries. Steel plants and shipyards were still advertising desperately for workers, but there were actual declines in employment in many lines of industry. For the first time during the war period the State Department of Public Assistance began to report more additions to relief rolls than deletions. In Allegheny County in all but one of eleven months in 1943 more relief cases were opened than were closed and forty-four per cent of the cases opened were due to the loss of employment.

Factory pay rolls continued to expand the purchasing power of the state as they reached in December a peak of about $55,000,000 a week, according to the Philadelphia Reserve Bank. This was about twenty per cent above the previous year. Pay rolls advanced at a rate nearly four times that of employment. The increase in the actual money wages received by individual workers was marked. The average weekly income of factory workers rose about four dollars during 1943 to forty-six dollars, which was
about twice the 1939 average. The average increase in time put in was ten per cent.

Other indexes of business activity showed the same tendency toward growth with occasional set backs. Whereas the general national level was upward, Pennsylvania suffered severe fluctuations because of labor disturbances in the coal and steel industries. Measured by production of coal, output of crude oil, factory pay rolls, and sales of industrial power, the general level of industrial activity in the state increased in 1943 seventeen per cent over the previous year. "Industrial activity in the state seems definitely to have leveled off and little further expansion is anticipated at this time," reported the Pennsylvania Business Survey in February, 1944. General business activity as measured by bank debits, factory pay rolls, and sales of industrial power was at a new all-time high of eighteen per cent above 1942, but a slump was noticeable toward the end of the year.

The conclusion then is that while continued expansion to new high records was evident in almost every phase of business and industrial activity in Pennsylvania during the past year, there was a leveling-off process, indicating the definite slowing down of the wartime economy. This did not mean that future rises in certain indexes of economic activity were not to be expected in 1944 or even later. It did mean that the era of startling and record-breaking developments was probably at an end. Both this fact and more complete information now make it possible to gauge some of the more significant economic developments of the war period.

Pennsylvania unquestionably has made a large contribution to the arming of a defenseless democracy at home and its allies abroad. Official figures show that from June, 1940, to July, 1943, it received contracts for war supplies and facilities totaling $8,800,000,000, or six and sixty-two hundredths per cent of the national allocations, the amount by July, 1943, being nearly double that of July, 1942. In 1943 it ranked sixth among the states in amount of such contracts; only Michigan, New York, California,

Ohio and New Jersey in the order named exceeded it. But the shifting of contracts to the interior as a decentralizing and protective measure—plus certain other factors—was not a hopeful sign for Pennsylvania and the industrial states of the middle Atlantic seaboard.

The income of Pennsylvania as measured by payments to individuals increased nearly fifty per cent from 1939 to 1942, or from $5,819,000,000 to $8,694,000,000. On a basis of the general rise in business activity in the state in 1943 it may be estimated with reasonable accuracy that this figure had reached easily the ten-billion mark by December, 1943. In common with its sister states of the Middle Atlantic region, however, Pennsylvania received a smaller proportion of the national income than previously; its percentage in 1939 was eight and a fifth and in 1943 was an estimated six and a half or seven.

Bank debits accumulated at about the same rate as individual income, or from $27,684,000,000 in 1939 to $41,128,000,000 in 1942, a growth of over forty-eight per cent. In 1943 they continued to swell at a rapid rate until the middle of the year, when, like other trends, they leveled off and began a decline which produced an average annual expansion of some sixteen per cent. At the end of the year, according to the Pennsylvania Business Survey, they stood at $46,681,000,000, the largest amount since the 1929 boom.

Demand bank deposits by individuals, corporations, and partnerships increased at a tremendous pace under wartime conditions. Member banks of the Philadelphia Federal Reserve District, including about two-thirds of the counties of the state, reported an increase of a hundred and six per cent in demand deposits from 1939 to 1943. The national average was a hundred and thirteen per cent. The Cleveland Federal Reserve District, embracing the remainder of the state, reported an increase of a hundred and forty-one per cent, but this figure was influenced by conditions in Ohio.

An analysis of the deposits in the Philadelphia district confirms the conclusion that Pennsylvania received its greatest benefits

during the early stages of the war when its existing industrial resources were called upon to produce at once and in great quantities. During the 1939-1941 period demand bank deposits in that district were one per cent above the national average as contrasted with a lag of seven per cent in 1943. A detailed analysis of deposits in July, 1943, involving two hundred and seventeen banks, of which all but twenty-seven were in Pennsylvania, reveals further interesting information. At that time the banks of Pennsylvania, as gauged by those representative of over forty counties, were holding five and four-tenths per cent of the nation's demand deposits. This proportion was not consistent with the state's eight and one-tenth per cent of the nation's manufactures in 1939 and eight and two-tenths per cent of the national income. The lag was attributed by the Federal Reserve "largely to the increasing placement of contracts for war materials in other sections."

Pennsylvania's percentage of individual bank deposits appeared to be in closer relation to its share of the national income. Thirty-one per cent of the bank deposits were individual rather than business accounts. The distribution of business accounts provides some indication of the way in which the several sections of the state profited from war industry. The southeastern Pennsylvania region experienced the largest percentage of increase in bank deposits of all types, especially in business accounts. The York-Lancaster, Williamsport, and Altoona-Johnstown areas also registered very substantial increases. The anthracite counties had the least growth in war income, as measured by bank deposits.

Business births and deaths as indicated by names added to or deleted from Dun and Bradstreet are regarded as a good barometer of the rise and fall of business activity. The number of names added declined steadily after 1941; 2,021 were added that year and only 899 in 1943. The number of names deleted expanded from 1,875 in 1941 to 2,354 in 1942. In 1943 it was 1,949. It is thus indicated that very few new enterprises were being started and that many existing businesses were unable to continue. The

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9 Special report on Pennsylvania prepared for the Pennsylvania Historical Commission by Dun and Bradstreet. From 1935 to 1941 the number of added listings was on the increase by nearly four per cent. See also Stokes, op. cit.
report, which is in agreement with information in the Philadelphia Reserve Bank study previously cited, is significant in that it tends to show not so much a dangerous number of business deaths as a marked lessening of growth. The analysis of July, 1943, shows that at member banks business paper in local portfolios increased from 352 million dollars in June, 1939, to about 500 million dollars late in 1941. By mid-1943 it was down to some 330 million dollars, or less than before the war. These statistics support other evidence tending to demonstrate conclusively that the period of greatest war prosperity in Pennsylvania was about 1941, mainly in the early lend-lease era.

But the spectacular figures reported on war production, business, and employment in the past two years have concealed the fact that the position of the state in relation to other sections of the country was declining. This situation it shares with its neighboring states of the Atlantic seaboard area such as New York and New Jersey. “The center of gravity of American economic life has shifted markedly Westward and Southward during the war,” declares the Stokes report of the Department of Commerce. This is due in the main, as indicated previously, to the deliberate placing of war contracts in other sections.

For many years before the war there was a growing consciousness on the eastern seaboard of the fact that the center of American economic power was shifting westward. The great Pennsylvania steel industry illustrated the trend. At the peak of the first World War it was producing forty-six per cent of the nation’s steel, but this was a decline from forty-nine per cent in 1915. In 1939 it produced only twenty-eight per cent because of the extensive development of steel making in other sections. The State Planning Board in its comprehensive report on the state’s economy in 1934 pointed out that every decade since the census of manufactures was taken in 1909, there had been some decrease in Pennsylvania’s percentage of the total value of the national manufactures. The production of manufactures in the Philadelphia Reserve Bank District rose from 1919 to 1929 at about half the rate of growth for the United States.

It is interesting to conjecture briefly as to the implications of this trend. In the first place, its seriousness is not to be dismissed. On the basis of reported 1943 national-income figures (taking into account a decline of at least one per cent in the state’s percentage of the national income since 1939) this slump cost Pennsylvania fully one billion dollars last year. This amount is not insignificant in terms of what it would mean in purchasing power, capital available for investment, or state revenues. It is a sum too large to be ignored even in these times of astronomical figures.

In the second place, Pennsylvania economy has been built up since the Civil War so largely around manufacturing that its relative decline, despite increases in total products, employment, and so forth threatens the economic life of the state at its very foundation. In the Philadelphia Federal Reserve District, for example, manufacturing accounts for almost seventy-five per cent of the industrial employment. It has about five times the employment of either agriculture or mineral industry. The decline of manufacturers can therefore undermine the entire economic life of this area, which includes about two-thirds of the state. The situation in western Pennsylvania with its heavy dependence on the steel industry is very similar.

The reasons for this situation, which has been developing over at least three decades and has only been accelerated by wartime conditions, are various. Some of the more important ones are readily determinable. It is important especially to avoid any implication of persecution. The idea that Pennsylvania has been discriminated against deliberately in national policy is rather ridiculous in view of the long-term nature of the trend. What has happened has been due to economic rather than political factors. Neither Pennsylvania nor the seaboard states in general should fall into a self-conscious minority classification. The relative decline of manufactures in the old eastern industrial region, home of the American industrial revolution, is a natural result of national growth. The rise of competing manufactures in the West centering around the Mississippi valley, the Great Lakes, and the Pacific coast and the development of new resources in the same area have been a natural result of the expansion of the country.

as a whole. The consequences were quickened greatly in the post-
Civil War period with the emergence of a system of national rail-
way transportation. The full effects on the older regions were
not felt until about 1910. Roughly since that date the dominance
and the power of the industrial East have been challenged.

Because of the great diversity of its industries Pennsylvania in
particular had a boom in the first World War and, as has been
indicated, a similar one early in the present conflict. The basic
changes taking place thus tended to be obscured. In both cases,
however, the position of Pennsylvania manufactures in their rela-
tive importance in the national economy was weakened. The state
has been vulnerable in the long run because of the great preponder-
ance of such industries as steel and shipbuilding in its war pro-
duction; the demand for both ships and steel experiences a sharp
deflation when peace comes. After the first World War the rate
of growth of manufactures in Pennsylvania was only about half
that in the United States. Behind this fact was the development
of such great new industries as automobile manufactures almost
entirely outside the commonwealth. The physical volume of au-
tomobiles, furniture, electrical appliances, and similar nondurable
goods was increasing between 1922 and 1929 at a rate of about
six and three-tenths per cent. Production of food and textile
manufactures, Pennsylvania staples in time of peace, rose at the
rate of only one and three-fifths and two and one-fifth per cent.12

The economic effects of the second World War are following
much the same pattern as did those of the first. The importance
of these facts to those who are planning for the postwar period
should be obvious. Careful attention should be given to the eco-
nomic history of Pennsylvania in its relationship to the United
States as a whole for at least the period since 1890 or 1900. More
and more it appears that the turn of the century was a milestone
of great significance in American national development. Many of
the changes are only now beginning to be felt. Pennsylvanians es-
pecially cannot afford to ignore the lessons which might be gained
from a careful study of recent economic history, a field sadly
neglected in the state.

It is only through a careful analysis of the past that Pennsyl-

12 Frederick C. Mills, *Economic Tendencies in the United States*, National
Bureau of Economic Research, Publication No. 21, p. 274.
Pennsylvania's business and political leaders can chart an intelligent course for the difficult days ahead. To say that Pennsylvania has suffered some displacement is not to be construed as an admission that the commonwealth is "going to the dogs." Indeed, with its diversity of manufactures it is in a better position to readjust itself to the changing national economic picture than is almost any other eastern seaboard state. It is still rich in resources such as minerals, man power, and the native ability and initiative of its citizens. It has an abundance of capital and by almost any standard of comparison is still one of the wealthiest of the states.

The important point is that necessary readjustments to meet the challenges inherent in the changing national economic scene should be undertaken very soon in order to lessen the seriousness of the difficulties which lie ahead. The state and its communities in planning for the postwar period should carefully study the shifts and adjustments in the past economic pattern. New industries or new processes and products for old industries may be necessary. The possible effects of the forthcoming revolution in air transport should be given consideration. The utmost conservation of present resources and the greatest possible intensification of the search for new ones are in order. Rational long-range planning can avert many dangers which may now impend.