48

82D CONGRESS } SENATE { REPORT
1st Session } { No. 644

INFLATION STILL A DANGER

REPORT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

TOGETHER WITH MATERIALS ON

NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK

PREPARED FOR THE
JOINT COMMITTEE
BY THE
COMMITTEE STAFF

AUGUST 15 (legislative day, AUGUST 1), 1951.—Ordered to be printed with illustrations

UNITED STATES
GOVERNMENT PRINTING OFFICE
87787 WASHINGTON : 1951

84

JOINT COMMITTEE ON THE ECONOMIC REPORT

(Created pursuant to sec. 5 (a) of Public Law 304, 79th Cong.)

SENATE

JOSEPH C. O'MAHONEY, Wyoming, *Chairman*
JOHN SPARKMAN, Alabama
PAUL H. DOUGLAS, Illinois
WILLIAM BENTON, Connecticut
ROBERT A. TAFT, Ohio
RALPH E. FLANDERS, Vermont
ARTHUR V. WATKINS, Utah

HOUSE OF REPRESENTATIVES

EDWARD J. HART, New Jersey, *Vice Chairman*
WRIGHT PATMAN, Texas
RICHARD BOLLING, Missouri
CLINTON D. McKINNON, California
JESSE P. WOLCOTT, Michigan
CHRISTIAN A. HERTER, Massachusetts
J. CALEB BOGGS, Delaware

GROVER W. ENSLEY, *Staff Director*
JOHN W. LEHMAN, *Clerk*

82D CONGRESS } SENATE { REPORT
1st Session } { No. 644

INFLATION STILL A DANGER

AUGUST 15 (legislative day, AUGUST 1), 1951.—Ordered to be printed

Mr. O'MAHONEY, from the Joint Committee on the Economic Report, submitted the following

REPORT

The Joint Committee on the Economic Report is concerned lest the combined effect of a prospective cease-fire in Korea, a budgetary surplus for the fiscal year just ended, and a temporary easing of inflationary tension may lull the country and the Congress into complacency regarding the threat of further inflation.

The important facts are that there can be no let-up in the necessary strengthening of our defenses against aggression, that the Government has been operating at a budget deficit since April, and that prices are today threatening to resume their upward trend. The committee believes that the avoidance of inflation is essential to the long-run strength of this Nation; to the preservation of the free-enterprise system and the liberties which it permits.

The committee believes that fundamental inflationary pressures will continue to mount in the months to come as the presently scheduled defense effort diverts larger portions of national production from civilian use.

The committee is consequently convinced of the urgent need (1) for renewed efforts to reduce and postpone less essential Government expenditures, and (2) for promptly providing tax revenues sufficient to balance a carefully planned administrative budget this fiscal year.

Doubts as to the efficacy of direct controls, including selective credit controls, under the Defense Production Act as amended make it all the more important that the expected inflationary gap be closed by rigorous Government economy and increased taxes.

Finally, in recognition of the economic aspects of Communist attacks on the free world and of the importance of maintaining our own economic strength, the committee recommends a thorough appraisal of the military program and an examination of ways and means to strengthen and enlarge the capacity of this Nation and all free nations to meet the strains of the defense program.

JOSEPH C. O'MAHONEY,
Chairman.
JOHN SPARKMAN.
PAUL H. DOUGLAS.
WILLIAM BENTON.
ROBERT A. TAFT.
RALPH E. FLANDERS.
ARTHUR V. WATKINS.
EDWARD J. HART,
Vice Chairman.
WRIGHT PATMAN.
RICHARD BOLLING.
CLINTON D. McKINNON.
JESSE P. WOLCOTT.
CHRISTIAN A. HERTER.
J. CALEB BOGGS.

LETTERS OF TRANSMITTAL

AUGUST 7, 1951.

To Members of the Joint Committee on the Economic Report:

This committee was unanimous a year ago in recommending the adoption of a formal pay-as-we-go policy to finance defense expenditures. It recommended economy in Government outlays for nondefense purposes and increased taxes to pay the increased costs of rearmament. This was done because the members of the committee were convinced that it would be dangerous in the extreme to risk a new preparedness deficit while old war debts remained unpaid. These same considerations prompted the preparation and submission to the Congress this year of the formal annual report on the President's Economic Report. Again the committee was substantially in agreement on its conclusions and recommendations.

Last year, following the original recommendation of this committee, new taxes were enacted raising new revenues; some nondefense expenditures were cut; and, although defense outlays were increased, the fiscal year 1951 ended with a budget surplus of $3.5 billion.

As of this date, however, the Congress has not yet completed action on two key subjects: appropriations for fiscal 1952, and an increase in taxes to maintain the pay-as-we-go budget. The size of the budget is still uncertain. Military requests—by far the largest item in the budget—do not include appropriations for the Korean War. The preparedness program, though not moving as rapidly as planned, is now making itself felt on the economy and as it moves into higher gear and more nearly requires the 20 percent of the whole annual national output as planned, Congress and the country will be face to face with the necessity of making a decision, either to maintain a formal pay-as-we-go policy or temporize with a weakened defense program.

There can be no doubt that the country is a unit in its determination to resist Communist aggression by organizing the free world to defend itself while at the same time seizing every honorable opportunity to prevent a third world war. The principle the Nation has been acting on is that world peace can be won only by a rearmament program by ourselves and our allies over a series of years on the theory that if the free world continues to build up its military strength the Soviets will be deterred from starting an all-out war.

The Marshall plan is to be converted from economic to primarily military assistance. Military expenditures here and in Europe, year after year, will constitute an economic burden, the magnitude of which and the effect of which are perhaps not as clearly understood as they should be. It cannot be doubted that Soviet policy is largely dictated by the conviction that the free world cannot endure such expenditures for a period of years without economic collapse.

Although in recent months inflationary pressures in this country have eased due to the rapid increase in output of consumer goods last fall and winter before defense demands had created a shortage of materials, it is to be expected that rising defense production will cause a cut-back in consumer supplies while at the same time increasing consumer demands and, as a result, cause inflation both here and abroad to be again a serious danger. The problem of Congress is to determine how this danger may be counteracted.

In the belief that the Joint Committee on the Economic Report will desire to review the economic situation as it now stands, I am transmitting herewith for the information of members of the committee and others interested a staff report entitled "National Defense and the Economic Outlook." This report attempts to present the most reliable estimates of the impact of the national defense program on the economic outlook. It has been objectively prepared. The basic data were drawn from Government and private publications and from staff conferences with technicians inside and outside the Government. In part it brings up to date the staff study of February 23, 1951, entitled "The Economic and Political Hazards of an Inflationary Defense Economy." It is now submitted to members of the committee for their consideration and such suggestions as they may wish to make. After committee members have had an opportunity to examine the report, it is my plan to call a committee meeting to discuss it. Copies of the President's Midyear Economic Report and the Second Quarterly Report of the Director of Defense Mobilization are also transmitted.

JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report.

AUGUST 1, 1951.

Hon. JOSEPH C. O'MAHONEY,
Chairman, Joint Committee on the Economic Report,
United States Senate, Washington, D. C.

DEAR SENATOR O'MAHONEY: Last February the Joint Committee on the Economic Report issued a committee print entitled "The Economic and Political Hazards of an Inflationary Defense Economy." That document, prepared by the committee staff, indicated mounting inflationary pressures in the coming fiscal year. An economic model prepared on the basis of stated assumptions showed the likely trends of defense expenditures, production, and private demand. From these computations, estimates were derived of the inflationary pressures likely to be generated by excess consumer money demand and excess business spending. A corresponding quantitative appraisal was made of the effectiveness of various proposed stabilization measures to remove or neutralize such inflationary pressures.

The dangers of inflation during the next year of military build-up still loom large. There is transmitted herewith a revision of the February 1951 economic model for fiscal 1952 based upon recent studies by the committee staff. Unfortunately, official projections by those responsible for economic mobilization still have not been publicly presented in the detail needed for congressional action on major economic policies. To the extent that fragmentary projections have appeared recently from official administration sources, key statements are quoted in appendix B.

We emphasize that the projections set forth herein are on the basis of stated assumptions, and should not be interpreted as forecasts of what will actually happen. The basic assumption is that the defense build-up will proceed as currently scheduled or as the staff is able to interpret that schedule. We have not set forth detailed projections for alternative assumptions, but the economic results of such changed programs are alluded to in the text of this report.

One further word with respect to the use of these data. While it is necessary to use detailed and precise figures to arrive at an economic model which will check internally, we emphasize that the only purpose of a model, once prepared, is to show quantitatively the general order of magnitude of possible major economic developments on the basis of stated assumptions.

The detailed job of projecting the quantitative data was done by James W. Knowles; other members of the staff participated in analyzing the data and in preparing the report. These materials are submitted, therefore, as the composite views of the committee's professional staff. We have had the help and cooperation of technicians in the executive agencies and others outside the Government in the development of these materials.

Respectfully submitted.

GROVER W. ENSLEY,
Staff Director.

CONTENTS

87787—51——2

NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK

Summary

This report presents economic data intended to be helpful to the Congress in considering legislation in two major areas in which action is scheduled before the congressional recess: (1) the 1952 appropriation and foreign-aid bills which, allowing for prospective lags in deliveries of military goods, may result in a level of Federal expenditures in fiscal year 1952 of $68.4 billion according to latest estimates of the Bureau of the Budget, and (2) the proposed increase in taxes with the hope of closing the consumer inflationary gap, estimated at $5 billion for the fiscal year 1952, and of balancing the administrative budget which, on the basis of the Bureau of the Budget estimates of expenditures and committee staff estimates of revenues under present tax laws, shows a deficit of $7 billion for fiscal 1952.

The first half year of the defense economy (beginning July 1950) witnessed inflation at a rate equaled in recent American history only by the period following decontrol in 1946. The cost of living increased by 6.7 percent in 6 months and by 9 percent in 11 months. Wholesale prices increased by 14.5 percent between June 1950 and January 1951 and later reached a peak of 17 percent above June 1950. Prices have temporarily leveled off since March. The June Consumers' Price Index showed a decline of 0.1 percent. The temporary excess of inventories together with wage and price control programs and dislocations as production shifts from civilian to defense goods may result for awhile in price stability and even in further declines in some commodities.

Inflationary pressures of the past year have been largely speculative—an anticipation by consumers and business of what might happen. Prices are now weakening because the anticipations of consumers and business were excessive.

The economic hazards of the next 2 years are those of an economy in which the pressures for higher prices are not speculative but fundamental; not anticipatory but arise out of increases in basic costs and in demand which the existence of some excess money income permits to be passed on to final buyers in higher prices. There will be this pressure unless conditions warrant a reduction in the military program. But responsible civilian and military leaders have indicated repeatedly that nothing on the international horizon would warrant any let-up in the military program. On the contrary, the President states in his recent Midyear Economic Report that:

> We are reviewing our immediate goals for military strength, and it is quite possible that we shall have to raise them in several important respects (p. 3).

The staff estimates that the defense effort,[1] on the basis of present schedules, will take almost 15 percent of total national production in fiscal 1952, increasing to 18 or 19 percent in the peak fiscal year 1953. The ratio to national income is estimated at 17 percent in fiscal 1952, or 3 percent under the 20 percent cited as the proposed limit in this committee's April 2, 1951, report to the Congress.[2] A defense program that takes 15 to 19 percent of the total output (17 to 21 percent of national income) is economically bearable. Even with a defense program of this magnitude, personal consumption of goods and services at present prices can increase somewhat over the next 12 months and can remain at this higher level through the following year.

However, assuming that this defense build-up schedule (which allows for lags in tooling-up and producing defense items) is maintained, consumer demand for goods and services may exceed available supply at present prices by $5 billion in fiscal 1952 on the basis of expected production, planned Government and private investment outlays, and average rates of individual savings in recent years. By the end of the fiscal year the excess consumer demand would be greater than this $5 billion average because of the continued planned acceleration of the defense build-up through fiscal 1953.[3]

Unless this $5 billion is absorbed (1) through a modification in the timing and scope of Government and private investment programs; (2) through increased taxes; and (3) through additional savings of individuals; prices will rise. The weakening effect of such an inflation on our national and free world economy is appreciated by everybody.

To ease inflationary pressures, the Government should, within security limitations, reduce expenditures and postpone governmental projects and, through the allocation and credit restraint programs, modify the timing of new private investment. However, the effectiveness of these steps in the short run in closing the inflationary gap appears quite limited, unless the overshadowing military appropriations for 1952 are cut substantially.[4 5]

If the estimated $5 billion consumer inflationary gap were to be closed through increased taxes alone, a promptly enacted program raising additional taxes in the magnitude of $10 billion a year would be required because of lags and the fact that some of almost any increase in taxes tends to come out of parts of incomes which might otherwise be saved. A $10 billion tax program would probably just balance the administrative budget for fiscal 1952 if enacted promptly. An administrative budget deficit would still loom on the horizon for fiscal 1953, however.

The pending House-passed tax bill, raising about $7 billion in a full year and collecting about $5 billion in fiscal 1952, would fall short of producing the revenue required to close the inflationary gap and to balance the administrative budget. The additional revenue, for

---

[1] Based on Treasury Bulletin classification of Federal budgetary expenditures; includes "national defense and related activities," atomic energy, and mutual defense assistance.

[2] Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President, p. 15.

[3] The Director of Defense Mobilization, for example, estimates that the inflationary gap will be at an annual rate of between $10 and $20 billion by mid-calendar-year 1952. (See appendix B, p. 47.)

[4] See discussion in Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President and Supplementary Staff Materials, April 2, 1951, pp. 3 and 31.

[5] See the discussion of possible principles for reducing Federal expenditures on p. 25.

maximum anti-inflationary effect, should be derived largely from groups in the $3,000 to $10,000 income brackets.[6]

The question to be answered is whether the economy could sustain a tax program yielding an additional $10 billion in a full year supplemented by a temporary direct control program strict enough to prevent these taxes from being shifted to consumers in higher prices, to dampen the wage-price spiral, and to induce postponement of less essential private investment.

An affirmative belief rests on the basic fact that, once the size of the defense program is agreed upon, the people will pay the costs now—either through inflation which reduces the purchasing power of the dollar or through a rational and equitable tax program. However, the size and structure of the tax load that the Nation is capable of bearing is a value judgment. There is no definite line that can be drawn for all time. The economic limits vary with changing conditions, among which the immediate threat to our way of life is of great significance. The Senate Finance Committee is giving attention to this problem in connection with the pending tax measure.

To the extent that the tax bill is less than $10 billion, the remainder of the excess purchasing power must be saved if prices are not to be driven upward. Direct controls can play a real role in this process temporarily. Whether the recently extended price and wage controls are adequate for this and other purposes remains to be seen. In addition to studying the effectiveness of these controls, it is recommended that the Joint Economic Committee investigate the considerations and techniques that might be employed to encourage increased individual savings.

Inflation is not a strictly domestic problem. Data from the Midyear Economic Report of the President emphasize the world-wide character of current inflationary pressures. This same point was stressed in the staff study submitted to the committee in February 1951 under the title "The Economic and Political Hazards of an Inflationary Defense Economy."[7] Consideration of the pending foreign-aid legislation will undoubtedly include this problem. But it would be useful for this committee to investigate in greater detail the implications of this world-wide inflationary danger.

Neither congressional leaders nor the President have so far indicated that they believe the national defense program should be cut back even if a cease-fire in Korea is negotiated. It is hoped, however, that we shall be over the defense build-up "hump" by the middle of calendar 1953. It is hoped that total Federal expenditures can be reduced after the "hump" to a level below $60 billion per year by 1956 compared to $44.6 billion per year in fiscal 1951. This report points out the economic problems which will undoubtedly arise in the adjustment from an estimated $87 billion peak in fiscal 1953 to this lower level.

[6] See discussion in Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President and Supplementary Staff Materials, April 2, 1951, pp. 7, 46-60.

[7] Part II.

The First Year of the Defense Economy

(July 1, 1950, to June 30, 1951)

When South Korea was invaded the American economy was generally approaching full employment of resources; only about 5 percent of the labor force was unemployed, and prices were slowly rising. The defense program immediately created three problems: (1) how to increase production to supply, insofar as possible, both defense requirements and civilian demands; (2) how to divert manpower and other resources, where necessary, from civilian channels to the defense program; (3) how to prevent the inflationary pressures developed by the defense program from pushing prices upward.

Congress expeditiously moved to authorize programs to deal with these three problems. To encourage an expansion of productive capacity, it provided for loans and procurement contracts under the Defense Production Act, enacted in early September 1950, and for accelerated amortization of new plant and equipment under the Revenue Act of 1950. It provided in the Defense Production Act for priorities and allocations to divert resources to the defense program. It moved to change the then pending tax reduction bill into a bill to increase taxes, and later reimposed the excess-profits tax. Economies in Government nondefense expenditures were instituted and funds already appropriated for postponable projects were placed in reserve. Expenditures for fiscal year 1951, exclusive of the military functions of the Defense Department and atomic energy, were $3 billion less than in the preceding year. In the Defense Production Act, authority was given the Administration to control wages and prices, which it exercised in January 1951. It provided authority for selective credit controls under which the Board of Governors of the Federal Reserve System issued regulation W restricting installment credit, and regulation X limiting real-estate credit. The effectiveness of selective credit control has been reduced, and the administration claims that the effectiveness of wage and price controls has been seriously weakened by the recently enacted amendments extending the Defense Production Act.

Price trends

In spite of these actions, consumers' prices have risen about 9 percent since June 15, 1950; most of the rise occurred in the first 8 months of this period. Wholesale prices increased on the average by about 17 percent above June 1950 prices before the slight decline in recent months. Some individual prices increased as much as 100 percent. With one exception, this was the most rapid and the most widely pervasive inflationary movement in recent American history. According to a study submitted to this committee:

> Wholesale prices in February 1951 were at an all-time high, following an advance of 17 percent since June 1950 * * * an unparalleled rise over any corresponding period since World War I, except for the period of price decontrol in 1946 * * *. Following the initial accelerated rise of the sensitive raw materials and farm products during the period immediately following the Korean

developments, the uptrend in prices subsequently broadened to include all but 2 of the 48 major commodity groupings comprising the BLS wholesale price index. Between June 1950 and January 1951 more than two-thirds of the groups increased 10 percent or more, * * * one-third of the groups increased 20 percent or more, while one-fourth rose 25 percent or more.[8]

Since March, evidence of price stability and even price cutting has appeared. In recent months inventories have risen rapidly. Production temporarily outran the increase in consumer demand at prevailing high prices. In 9 months consumer expenditures had risen by 10.2 percent, but production also had risen so rapidly that total business inventories increased from $54.2 billion at the end of June 1950 (seasonally adjusted) to $70.4 billion at the end of June 1951, or nearly 30 percent. Between June 1950 and June 1951, industrial production increased 12 percent. The index in July will likely show a decline of 2 or 3 percent because of the usual July plant-wide vacations in many industries, and declines in the automobile and textile industries, offset largely by increases in defense production.

Fair-trade "war"

In May 1951 a decision by the Supreme Court interpreting the fair-trade laws seemed to open the way to price competition on merchandise previously sold at prices fixed by manufacturers under the Miller-Tydings law. Immediately headlines across the country announced price cutting. However, an investigation indicates that substantial price cutting on fair-traded goods occurred in only 8 out of the 123 cities surveyed. The principal price cutting was on electrical household goods, cosmetics, and drug sundries. By the end of July the price war had almost abated.[9]

There seems to be little likelihood in the immediate future that the court decision will result in widespread price decreases. Many retailers seem to have taken advantage of the fair-trade decision to stimulate sales and reduce temporarily embarrassing inventories. Consumer demand continues to be bolstered by an increased flow of income stimulated by the defense effort. This decision may later create problems for many retailers and manufacturers should inventories again become excessive and consumer demand sharply decline.

Causes of the recent price lull

The present price lull which began last March is the result (1) of the seasonal tax bite which comes each year in March and which was heavier this year because of the tax increases of last fall; (2) of the effectiveness of consumer and housing credit control and, more recently, the tightening of general credit; (3) of the temporary slackening of demand as consumers and business reached a point where their most urgent current and anticipated needs had been met, particularly in durable goods, thus resulting in an increase of business inventories to unprecedented levels as civilian production temporarily increased; (4) of the direct price and wage control program; and (5) of the fact that defense expenditures did not accelerate as rapidly as consumers and business expected in the buying hysteria of last summer and fall.

---

[8] From a study made for the Joint Committee on the Economic Report by the Office of Business Economics, Department of Commerce.

[9] "Prevalence of Price Cutting of Merchandise Marketed Under Price Maintenance Agreements, May 28 through June 25, 1951," a study prepared for the Joint Committee on the Economic Report and the Select Committee on Small Business of the U. S. Senate by Dun & Bradstreet, Inc., committee print, July 23, 1951, p 1.

The inflationary effects of the Federal budget

The Federal budget as a whole was not a deflationary economic force in fiscal year 1951 even though the Treasury showed an administrative budget surplus of $3.5 billion (consolidated cash surplus of $7.6 billion).[10] In the first quarter of this calendar year, the annual rate of defense spending was about $25 billion; however, Mr. Charles E. Wilson, Director of Defense Mobilization, reported that orders were being placed at a rate equivalent to about $48 billion a year. In other words, although the Treasury was showing a surplus of several billion dollars, orders for future delivery were being let sufficient to produce goods for the Government at an annual rate which could result in a deficit of perhaps $10 or $15 billion (at present levels of tax receipts) if payment for the goods was made at the time the obligations were incurred. This tended to make the Federal Government an inflationary force during the last fiscal year.

The trend in volume of business loans

The commercial, industrial, agricultural, and real-estate loans of commercial banks increased almost uninterruptedly from June 1950 until the end of February 1951. In the first 8 months after the Korean invasion, total loans of weekly reporting banks in leading cities increased nearly $7 billion—from $25.3 to $32.2 billion.[11] This spectacular rate of growth appears to have leveled off, at least temporarily, since late February or early March, with aggregate loans outstanding amounting to about $32.7 billion in mid-July. Business loans at weekly reporting member banks aggregating $19 billion at mid-March were unchanged at mid-July though during several weeks in June a tendency to expand was noticeable. The rise between June 1950 and the end of February 1951 was accompanied by a reduction

[10] At least three types of Federal financial statements are in use:

The Federal administrative budget, or the regular or traditional budget, includes receipts and expenditures of the general and special accounts of the Treasury and the net expenditures of wholly owned Government corporations. It does not include operations of the Government trust accounts, unless reflected as receipts or expenditures in the above-included accounts.

The Federal consolidated cash statement shows a total of all receipts from and payments to the public. It reflects all Federal receipts of money from the public, not merely tax receipts but also social security contributions and other trust-fund receipts. On the payment side, it includes not merely administrative-budget payments to the public but also social-security benefits. It excludes all items of receipts or expenditures which are merely bookkeeping transfers within the Government, such as, for example, interest on trust account investments in United States securities.

The Federal category of the Nation's economic budget shows, on the expenditure side, the amount of the Nation's total production of goods and services purchased by the Federal Government for its own use; and, on the receipt side, total revenues from taxes and social-security contributions on a liability basis. Deducted from the receipts side are amounts representing payments other than for goods and services, e. g., transfer payments to individuals, interest paid to individuals, grants-in-aid to State and local governments, and subsidies net of the current surplus of Government enterprises. These economically significant items are shown as a deduction in the Federal category to avoid double accounting since they are already included in the accounts of other categories. The method of classification, of course, does not in any way reduce the opportunity for analyzing their economic effects. To illustrate the difference in magnitudes involved, the following table summarizes data from the appendix tables of this report:

	Fiscal year 1952 estimates on basis of $10 billion tax increase (in billions of dollars)		
	Receipts	Expenditures	Surplus (+), deficit (−)
Federal administrative budget	68.4	68.4	0
Federal consolidated cash statement	75.0	71.0	+4.0
Federal category of the Nation's economic budget (see appendix A, table X)	58.0	56.0	+2.0

Source: Staff of the Joint Committee on the Economic Report.

[11] Loans of all commercial banks, as reported in Economic Indicators for July 1951, increased by almost $9 billion from $44.8 to $53.5 billions.

in the holdings of United States Government obligations of $6.2 billion. Apart from minor week-to-week fluctuations, the holdings were unchanged between February and July.

It is impossible to determine the precise cause of what appears to have been a leveling off in the upward trend. Undoubtedly seasonal influences played an important part. Business borrowings ordinarily decline in the first half of the year, particularly in the second quarter, and rise during the latter half of the year. Both the rise during the last half of 1950 and the slowing up of the expansion in the first half of the current year were probably influenced greatly by this pattern. It is to be expected, moreover, that any such rapid increase as occurred during the latter part of 1950 would be followed by some period of relative quiet. These two natural forces, the seasonal and the catching-up lull, are important in explaining the leveling off.

Two positive steps, however, were taken about the 1st of March expressly designed to curtail rapid expansion in the volume of credit. The extent to which the change in trend can be attributed to these changes in policy is not yet clear and may be debated for months to come. On March 4, 1951, the Federal Reserve System and the Treasury Department announced their "full accord" on credit and debt management policies. Implementing this agreement, the Federal Reserve thereafter gradually withdrew its general support of the Government bond market. While this action represented a major departure from the support policy in effect for nearly a decade the Council of Economic Advisers, in reporting recently to the President, did not mention this modification of policy and avoids any comment on the wisdom or effect of the change.[12]

Almost simultaneously with the change in Federal monetary and debt policy, a voluntary credit-restraint program was organized. Committees were set up under the plan to suggest stricter standards for further business loans and to organize the lenders themselves in a campaign directed toward restraint. Both of these steps influenced the attitudes of the lending fraternity though it is impossible to say how much.

While insurance companies have continued to add to their loan portfolios, it is reported that a considerable tightening has been recognized in their willingness to make commitments and to discuss loans for the future. It is possible, of course, that the rate of new lending by insurance companies would have slowed in any case. On the one hand there had been a long expansion in mortgage loans—an expansion which would undoubtedly have come to an end when portfolios were considered to be in balance and commitments were becoming excessive. At the same time, selective controls of credit and allocations of credit and of building materials reduced the demand for mortgage money. Which of these factors was most important—whether, indeed, there has been a genuine reversal of trend—will not be clear for some time. Until seasonal influences become expansionary and the downward trend more fully tested, it will be impossible to say which factors have been most influential.

[12] For a discussion of recent changes in monetary policy and in bank and long-term credit, see Federal Reserve Bulletin July 1951 (p. 746). Based on a survey of banks accounting for about two-thirds of all business loans, the article says: "* * * in recent weeks new borrowings have been undertaken mainly to finance direct defense contracts and what may be termed 'defense supporting' activities * * *. Defense borrowing was insignificant during the large loan expansion last fall."

87787—51——3

In evaluating the significance of measures directed at restraining expansion of money and credit, it must be kept in mind that monetary and credit policy affects production as well as price levels. This was pointed out in materials prepared for this committee by the committee staff under the title, "General Credit Control, Debt Management, and Economic Mobilization":

> The Government's current monetary and credit policies must be evaluated not only in terms of their success in curbing the expanding demands of individuals, businesses, and governments to the limits of available supplies, but must also be measured by their effectiveness in facilitating the over-all expansion of production, particularly in the critical defense and defense-related areas of our economy (p. 1).

This question is one of the points being investigated by a subcommittee of the Joint Committee on the Economic Report.

Programs to expand production capacity

Although in the first 8 months of the defense program an almost unprecedented inflation of prices occurred, considerable success was achieved in getting under way a program to increase capacity substantially, to increase total production, and, by allocation and priorities, to assure the production of needed defense goods. The National Production Administration has had in operation a system of priorities and allocations, but it is now in the process of setting up a controlled-materials plan similar to that used near the end of World War II.

The calendar year 1951 is likely to witness the greatest volume of industrial expansion this country has ever known. This has been stimulated by Government policies and programs.[13] Accelerated tax amortization amounting to $5.2 billion on a total investment of $7.6 billion has been approved. Over $12 billion more of applications have been received of which perhaps another $5 to $6 billion may eventually be approved.

In addition, the Department of Defense has a program for expanding productive capacity for military production in privately- and Government-operated facilities. Expansion under this program from funds currently available and requested for fiscal 1952 is estimated at approximately $6 billion. A program of guaranteed loans, direct loans, and procurement contracts to industry, under sections 301, 302, and 303 of the Defense Production Act, is also under way. Under the programs for direct and guaranteed loans, approvals through June 30, 1951, had reached almost $1 billion.

In the 3 months ending June 1950, private domestic expenditures for producers' durable equipment totaled $21.4 billion (seasonally adjusted annual rate); for the same period in 1951, it is estimated that these expenditures totaled about $27.5 billion (seasonally adjusted annual rate), an increase of over 28 percent in 12 months. More than half of this increase was due to price increases. On the basis of business plans, as revealed in a joint survey by the Department of Commerce and the Securities and Exchange Commission, there may be a further increase in production of producers' durable equipment. There has been a substantial increase in the construction of industrial and commercial plants, and such construction can be expected to continue at a high level.

[13] The Joint Economic Committee print, "The Need for Industrial Dispersal," contains staff materials emphasizing the need for making more effective use of these policies and programs in terms of underutilized resources and military security.

Accompanying this increase in investment in response to defense program requirements, production from existing facilities also rose moderately. The Federal Reserve Board Index of Industrial Production showed a rise of 12 percent during the first 12 months of the defense program. The rise in output and the increase in strength in the Armed Forces resulted in a reduction of unemployment by May 1951 to about 1.6 million compared to 3.1 million in May 1950, and, in addition, absorbed the normal annual increase in the labor force, plus some additional expansion above the normal yearly increase. In June unemployment rose again to slightly under 2 million as a result of the usual June seasonal increase in the labor force. In July unemployment was slightly under 1.9 million—a postwar low for that month—while civilian employment reached a new high of 62.5 million.

THE SECOND YEAR OF THE DEFENSE ECONOMY

(July 1, 1951, to June 30, 1952)

In February of 1951 the Joint Committee on the Economic Report published a set of projections for the fiscal year beginning July 1, 1951, prepared by its staff under the title, "The Economic and Political Hazards of an Inflationary Defense Economy."

The underlying pattern of employment, productivity, and physical output assumed in that study seems as yet to require only minor changes.[14] The February report indicated that for fiscal 1952 total employment might average 8.4 percent above fiscal 1950 which was just ending when the Korean invasion occurred; average weekly hours might be increased 4.3 percent; and productivity might rise about 4 percent above fiscal 1950 levels. More recent analysis indicates that there may be a greater increase in productivity than assumed but less of an increase in average weekly hours. These two changes tend to offset one another so that the estimate of output is relatively unchanged. The result would be a gross national product in terms of recent prices of about $340 billion. This is 4.6 percent above the $325 billion estimated in the February report and is due to price increases, slightly greater ($2 billion) output, and revisions by the Department of Commerce in the Gross National Product historical data. (See appendix A, table III, p. 37.)

Excess consumer inflationary demand

How much consumer inflationary pressure does this imply in fiscal 1952? The consumer supply of goods and services may amount to $214 billion after allowance for private investment and Federal, State, and local purchases of goods and services. If gross national product is as much as $340 billion, and the rate of net personal savings slightly above those prevailing in recent years, consumer demand after taxes at existing rates would amount to about $219 billion. This would mean that consumers might try to spend about $5 billion more than there would be goods and services available at present prices. (See appendix A, table IV, p. 37.)

This estimate assumes Federal administrative budget expenditures of about $68.4 billion (Federal consolidated cash budget payments of $71 billion), which is $3.2 billion less than the $71.6 billion estimated in the President's January 1951 budget message. It assumes mainly a greater lag in the acceleration of expenditures for national security than the President's original estimate for fiscal 1952. This revised estimate was presented by the Acting Director of the Bureau of the Budget before the Senate Finance Committee on June 29, 1951.[15] The adjustments referred to are after certain increases. Among the increases is an estimate that the Federal National Mortgage Association will require $200 million for net purchases of eligible mortgages instead

[14] To the extent that any assumptions in the projections have been altered since the February report these changes are explained in appendix A, p. 30.

[15] See appendix B, p. 48.

of being a net seller of $500 million as previously estimated. The change represents a net increase of almost three-quarters of a billion dollars in estimated expenditures.

This estimate of the inflationary gap between consumer demand and supplies of consumer goods and services assumes, as pointed out above, net personal savings only slightly above the average rate prevailing in recent years. If the exceptional rate of almost 9 percent experienced in the April–June quarter of 1951 were to continue, the inflationary pressure would be wiped out. However, such a development would be very exceptional and conservative public policy should not be based on expectations of exceptional behavior of consumers. Furthermore, the recent liberalization of consumer credit terms under the extension of the Defense Production Act will likely stimulate installment buying and thus reduce net personal savings from the recent high rate.

Business inflationary pressure

The estimate of excess consumer demand also assumes that gross private domestic investment plus net foreign investment will total about $49 billion. The investment estimate may appear high although it is substantially lower than the most recent rate ($64 billion in the April–June quarter). However, a high rate of investment is required if the policy is to be carried out which calls for additional capacity to produce needed defense items in many instances on a one-shift basis rather than the three-shift basis in present plants. This expansion program aims at creating emergency reserve capacity as well as capacity for sustained production under direct enemy bombing. The administration, however, should exercise utmost discretion in permitting private expansion in less essential areas at this time because of its immediate inflationary impact.

Business inflationary pressure (excess of demand over supply) for fiscal 1952 is estimated at about $3 billion. Business demand is estimated at $52 billion and available supplies at about $49 billion. (See appendix A, table V, p. 38.)

This business inflationary pressure can be effectively controlled, and less essential private investment dampened further, by the direct controls of NPA and the deflationary effects of increased corporate taxes as provided in the House-passed tax bill. (See appendix A, table VI, p. 38 and table IX, p. 39.)

Is inflation at an end?

The recent price lull has caused many people to believe that the inflationary threat has ended. They believe that the continued accumulation of business inventories is a sign that production is great enough to supply more goods than the public will buy at prevailing prices. In part, this is correct. Temporarily, production of civilian consumer goods has reached such levels that inventories have not only become excessive but are still rising. This cannot continue, however, if the defense goals are to be reached. In the coming months, materials and labor will be shifted to defense, consumer disposable incomes will rise, and excess inventories will be used up. Later in the fiscal year, as inventories adjust toward more reasonable levels, prices should firm—then the fundamental inflationary forces of rising costs of raw materials and labor as well as excess money demand may be expected to take hold. Inflationary pressures will again appear unless Government fiscal, credit and direct wage-price control programs are strengthened; or military spending is sharply reduced or postponed; or net personal savings are substantially above the average rate of recent years. As pointed out elsewhere in this report, the last two alternatives are not likely. The Director of Defense Mobilization has recently made this very point:

> The initial surge of post-Korean inflation, which for a time threatened to engulf the whole American economy, has been halted—at least temporarily. The critical question now is: How long will the present lull last, and can the line be held when heavy pressures reappear * * *.
>
> Factors which could produce a strong, new inflationary push are present. We must prepare for the increased pressures which lie ahead.[16]

During fiscal 1951 the Federal administrative budget was balanced and a surplus of $3.5 billion was achieved. The Consolidated cash surplus was about $7.6 billion. The consumers' inflationary excess demand was about $8 billion; yet prices rose about 9 percent at retail between June 1950 and May 1951. As long as the Government is increasing its rate of expenditures for defense faster than other demands are reduced, and as long as there is an inflationary excess consumer demand of some $5 billion, prices may be expected to continue to rise in spite of the efforts of the stabilization agencies. The annual report [17] of this committee pointed out that the combination of parity prices for agriculture, and escalator clauses in wage contracts, results in a kind of "cost-push" inflation as long as there is any excess inflationary demand to permit the cost-push-mechanism to operate. This may be offset in part under Economic Stabilizer Eric Johnston's directive requiring cost absorption up to the point where profits are 85 percent of the base period as defined in the excess-profits-tax law. However, the recently enacted "weakening" amendments [18] to the Defense Production Act partially nullify this program and intensify the "cost-push" pressures.

Inflationary pressures have been largely speculative—an anticipation by consumers and business of what might happen. Prices are now weakening because the anticipations of consumers and business were excessive. But later this fiscal year inflation of a more fundamental character will likely emerge, based on actual rather than anticipated increases in costs and demands in a full employment defense economy.

The economic hazards to be run are those of an economy in which the pressures for high prices are not speculative but fundamental; not anticipatory but arise out of increases in basic costs and demand which the existence of some excess money incomes permits to be passed on to final buyers in higher prices.

Controlling inflation

There are six basic types of policies which can be used to control inflation: (1) increase taxes and cut Government expenditures to reduce the purchasing power of consumers and business; (2) restrict credit so that increases in private debt cannot be used to obtain funds

---

[16] Second Quarterly Report to the President, by the Director of Defense Mobilization, p. 33.

[17] Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President, April 2, 1951, p. 9.

[18] Particularly the amendments requiring recognition of increases in all costs between June 1950 and July 26, 1951, in setting ceilings and providing for normal margins for retailers and wholesalers. These amendments restrict the freedom of OPS to require some cost absorption by manufacturers, wholesalers, and retailers in this emergency. Thus the "cost-push" inflation is given further stimulus and freedom to operate.

to bid up prices; (3) place direct controls on prices and wages; (4) encourage increases in personal and business savings beyond the average rate of recent years; (5) increase this Nation's productivity and the production of goods and services; and (6) encourage increases in productivity and industrial capacity abroad to increase the economic strength of the free world and to reduce the drain on this Nation's resources.

In practice, a successful anti-inflation program must make use of all these policies in a combination balanced to suit the particular circumstances of the period. If a peace is obtained in Korea, defense spending might be spread over a longer period of years, thus relieving inflationary pressures by making possible increased supplies of civilian goods and services. Economic considerations would point to this as the best policy—but the choice between the present rapid build-up and a delayed build-up of military strength must be based primarily on military considerations. America needs to weigh carefully the risks involved in a delay in the military program when Russia is devoting a large portion of her resources to production of modern military weapons. Recent aggressions give ample testimony to her long-term goals. Until there is convincing evidence that the risk of a slow build-up is worth taking, the present rapid build-up (with allowance for some inevitable lags in tooling-up and producing defense goods) seems to be the wisest policy.[19]

Inflation control calls for some combination of the types of policies listed above. Although many combinations are theoretically possible, the choice is between the following combinations:

(1) An increase in taxes of $10 billion (full year liability) to drain off the excess purchasing power, plus the recently "weakened" credit, wage, and price controls;

(2) A tax increase of only about $7 billion (full year liability and similar to the House-passed bill) combined with strengthened credit controls, strict wage and price controls, and a vigorous campaign to increase personal savings;

(3) A still smaller tax program, some further reductions or postponements in military expenditures (see above regarding the military risks involved), and strong credit, wage, and price controls.

The economic model worked out in detail in appendix A is based on a control program of the first type.

The House-passed tax bill now under consideration by the Senate Finance Committee would provide for an increase in taxes of about $7 billion in a full year. In fiscal 1952, actual collections under the bill would be about $5 billion.[20] It is doubtful, however, if the House-passed tax bill would reduce the $5 billion inflationary gap in fiscal

[19] In his Second Quarterly Report to the President, the Director of Defense Mobilization, Mr. Charles E. Wilson, emphasized that this is the necessary course to follow:

"This program must and will continue whether or not fighting stops in Korea. Whether the men of the United Nations are engaged in combat or are standing on a truce line makes no fundamental change in the need for building strength for the defense of freedom throughout the world.

"Our course is the only course that can end the tension and the constant danger that now envelop the whole free world. It is a dynamic program to win a genuine and lasting world peace.

"* * * We must increase the tempo of work on every phase of the program that is lagging. We must meet our mobilization goals—that must be the first concern of every American." (pp. 1 and 2).

[20] The Joint Committee on Internal Revenue Taxation estimates the increase in a full year at $7.2 billion, with actual collections of $5.4 billion in fiscal year 1952. These estimates assume a higher level of corporate profits and a lower estimate of personal income than assumed in our estimates. Also, the estimates of the Joint Committee on Internal Revenue Taxation are based on individual and excise taxes becoming effective September 1, 1951, as provided in the House bill, while the estimates of this staff are based on an effective date of October 1, 1951.

1952 by more than about $3.2 billion. (See appendix A, table VI, p. 38.)

Under the program spelled out in this report (combination 1, above) the remaining consumer inflationary excess demand ($1.8 billion) could be effectively removed by additional income taxes of about $3 billion (full year liability).[21] (See appendix A, table VI, p. 38.) An alternative would be the adoption of a suggestion made by Professor Louis Shere, of the University of Indiana, at hearings of the Joint Committee on the Economic Report, on January 31, 1951. Professor Shere suggested an increase in payroll taxes of 3 points to raise about $4 billion through the old-age survivors insurance system. These funds would be set aside in a special account and would earn for those paying the taxes, or their beneficiaries, increased retirement or death benefits.[22]

Concern is sometimes expressed over the possibility that taxes are now approaching the limit of what the economy can bear. Insofar as adequate taxation is an alternative to inflation, the question is simply whether it is not easier to bear a rationally planned equitable tax schedule than to suffer the inequities of a tax levied by reducing the purchasing power of the dollar.

The economic burden of the defense mobilization is not determined simply by the method of financing. The Council of Economic Advisers emphasizes this point, saying:

> * * * The economic burden is more accurately measured by the proportion of total national production diverted to war or defense purposes, and by the aggregate volume of goods and services remaining for civilian purposes, since taxes finance but do not create this burden.
>
> At the peak of the war, the military program took 45 percent of the gross national product, or somewhat over twice the maximum percentage which will be required for the defense mobilization program as now conceived. With the present program and the projected increase in production, it is estimated that about $1,330 of goods and services per capita will be available for personal consumption during the first half of 1952, compared with $1,130 (measured in today's prices) during the years 1943–45. With a far lower economic burden at present than during the war, we are paying about the same proportion of our national income in taxes. The significance of this fact is that our present tax policy represents a decision to face the burden on a current basis, which is desirable for a partial and possibly protracted mobilization.[23]

With the expected increase in production, under present tax laws disposable personal income may rise by at least $15 billion by April–June 1952. For the population as a whole, proposed increases in individual income taxes and in excises will probably absorb less than half this amount. It would seem, therefore, that given an acceptable distribution of the burdens, the limit on capacity to pay has not been reached.

An equitable sharing of the burden under the proposed tax program must give due weight to the ability of individual taxpayers to pay and at the same time to preserving incentives for work and production. Ideally the impact of personal income tax increases should fall most heavily upon those whose incomes and profits have been increased by the defense effort. The income group below $3,000, comprising approximately two-fifths of all spending units, is already hardest

---

[21] The Treasury $10 billion proposal would provide for about $2 billion additional excises and $1 billion individual income taxes above the estimated yields of the House-passed bill [full year liability basis].

[22] A memorandum from Robert J. Myers, Chief Actuary, Social Security Administration, endorses its feasibility. Hearings on the January 1951 Economic Report of the President, before the Joint Committee on the Economic Report, p. 350.

[23] The Midyear Economic Report of the President, July 1951, p. 135.

hit by the inflation of the past year. The maximum contribution to revenue and to economic stabilization by any tax program must, therefore, look to the mass income group above this level.

If only $7 billion (full year liability) of increased taxes are enacted, the $1.8 billion of excess consumer demand remaining would have to be saved to prevent further inflation. This would mean an increase of about 15 percent in personal savings above what would otherwise be expected on the basis of the experience of recent years. While great reliance should not be placed upon a voluntary increase in individual savings of this amount, nevertheless, the considerations and techniques for increased savings should be thoroughly explored.

If the tax bill falls short of the amount needed to close the inflationary gap, individuals may make a substantial contribution to economic stability by increasing savings. One of the avenues for increasing savings is to reduce individual consumer and real estate debt now at unprecedented high levels. Consumer debt now amounts to a little less than $20 billion and nonfarm residence mortgages to some $47.5 billion. It is estimated that under terms of present contracts individuals are committed to paying about $2.8 billion per month on their total personal debts of $67 billion. If no new debts were incurred and the rate of repayment were increased by 10 percent, about $3.5 billion per year additional would be withdrawn from the excess consumer demand; if increased by 20 percent, almost $7 billion per year would be siphoned off from the inflationary forces. While it is obviously unrealistic to suggest that personal debts can be fully liquidated, the possibilities of debt reduction, leading ultimately to a contraction of credit, offer an attractive avenue for increasing savings as a counterinflationary force (see appendix A, table VIII, p. 39). There are, of course, other ways in which additional net savings may be made.

By joining in a campaign to increase net savings, individuals and business will be reducing the amount of purchasing power bidding for scarce goods, thus helping to halt the rise in prices still threatening the economy, and enabling the Government to buy needed defense goods at stable prices.

The Nation's economic budget for fiscal 1952

The suggested policies and programs together with the economic assumptions spelled out in this report are summarized in the Nation's economic budget statement for fiscal 1952 (see appendix A, table X, p. 40). This statement shows how much of estimated supplies of goods and services will be available to consumers, business, State and local governments, and the Federal Government. On the other side of the budget, the incomes arising from production are accounted for among the same groups.

It is significant that in spite of increases in defense expenditures, on the assumptions of this report and at substantially present prices consumers may have available to them about $214.8 billion of goods and services in fiscal 1952 ($214.0 billion plus $0.8 billion in added excise taxes) compared to an annual rate of purchases of about $203 billion in the April–June quarter of this year. This is an increase of over 5 percent in real consumption in spite of an increase in taxes sufficient to close the inflationary gap and to maintain the pay-as-we-go budget policy.

87787—51——4

Furthermore, the summary statement indicates a cutback in private investment from recent high rates to levels more consistent with defense requirements and consumer needs. For example, investment in inventory accumulation is reduced from an estimated annual rate of about $14.3 billion [24] in the April–June quarter of 1951 to an annual total of $3 billion for fiscal 1952. Some additional declines in less essential new construction, such as amusement installations, and so forth, are shown. Increased delivery of military goods within the next year will, moreover, limit the quantity of scarce materials, such as steel, available for private investment. On the other hand, it appears the economy can continue to stand the strain of making producers' durable equipment at about present rates.

Thus the Nation's economic budget statement presented in this report indicates a balanced program of private and public incomes and expenditures for fiscal 1952. Whether this budget will be realized in practice depends upon the decisions made by Congress, the Administration, and private economic groups. If all work together, needed production can be achieved without inflation. But such success will require the cooperation of everyone in putting the public interest and national safety above special advantages for individuals and groups.

A pay-as-we-go budget

Widespread acceptance of the policy of pay-as-we-go following its unanimous advocacy by this committee a year ago necessitates some investigation of the problems and magnitudes involved. For the first year of defense preparation the Treasury showed a surplus of $3.5 billion. During fiscal 1952, the increase in receipts due to tax measures already passed, plus the House bill,[25] would result in an administrative budget deficit of $2 billion. This is based on estimated receipts of about $66.4 billion and expenditures of about $68.4 billion. Under the $10 billion tax program suggested in this report the administrative budget would be balanced. These estimates give recognition to developments which have taken place since the budget was submitted by the President in January 1951 (see appendix A, table XI, p. 40).

While the budget position of the Government for fiscal 1951 as a whole was favorable, the Government has been operating at a deficit since April 1951. It would be short-sighted to ignore the future budget implications of present programs. The peak in military expenditures will come after the peak in obligations (see appendix A, chart 1, p. 44, table I, p. 36). In other words, during this period of build-up in defense preparations, net new obligations for defense expenditures will probably reach their peak toward the end of the fiscal year 1952. Thus, the Defense Department, at the end of fiscal 1952 will have a carry-over of unexpended authorizations for military functions in the form of contract obligations or continuing authorizations of about $58.5 billion, or $18.5 billion more than the estimated expenditures of $40.0 billion in fiscal 1952. Even though new obligational authority for fiscal 1953 is reduced below fiscal 1952 levels, expenditures under present plans would apparently rise in fiscal 1953 to about $55.5 billion for Defense Department military

[24] See Midyear Economic Report of the President, July 1951, table B-5, p 229. This is a preliminary estimate by the Council of Economic Advisers made before June 1951 data were available. The actual figure is likely to be somewhat higher.

[25] Assuming effective date of October 1, 1951, for individual income and business excises instead of September 1, 1951, effective date in the House bill.

functions. This figure suggests a level of expenditures somewhat higher than the minimum figures recently cited by Budget Bureau officials for Defense Department military functions and military aid combined. On the other hand, it is below the maximum figures for military function of the Defense Department recently suggested by the Assistant Secretary of Defense. In light of this divergence the $55.5 billion figures seems reasonable and realistic. (See appendix B, pp. 47–48.)

In addition, there will probably be about $32 billion of expenditures in fiscal 1953 for stockpiling, atomic energy, foreign military and economic aid,[26] interest on the debt, veterans, and other civil functions of the Federal Government. Thus, in total, the Federal administrative budget may possibly reach a total of about $87 billion in fiscal 1953. Adding expenditures in trust accounts would raise cash payments to the public to practically $90 billion.

Under present tax laws, and assuming enactment of the House tax bill,[27] tax receipts may run about $75 billion in fiscal 1953, which, together with trust account receipts, may mean about $82 billion in total cash receipts from the public. On this basis, the excess of payments to the public over cash receipts from the public would be about $8 billion, and the Federal administrative budget deficit would be about $12 billion (see appendix A, table VII, p. 39, and chart 2, p. 45). Obviously, therefore, the budget now being acted upon by Congress, including both appropriations and taxes, implies a substantial deficit in fiscal 1953 if present defense programs are carried through as now planned.

If the Nation is to continue a pay-as-we-go policy, Congress must face the problem of finding substantial additional revenues above those in the House bill. Clearly, most of these would have to come from individuals in the $3,000 to $10,000 income brackets. There seems to be no other source left from which to get the substantial volume of revenue needed to maintain a pay-as-we-go policy. An examination of the effective tax rates under the present law and under the House-passed tax bill confirms the belief that in this middle range of incomes, tax rates could be increased further. The total tax load under such a program would still be equitably shared among income groups (see appendix A, tables XIII, p. 41, and XIV, p. 42).

Furthermore, since defense requirements may remain large for some years to come, a long-range program for controlling Federal expenditures must be developed. Instead of piecemeal attack upon the problem of outgo, consideration might be given (a) to putting direct governmental services as nearly as possible on a fee basis adequate to cover the costs; (b) to utilizing grants-in-aid to the States as counter-cyclical devices, contracting in times of flush employment and expanding in times of declining employment; (c) to tying desirable and necessary new expenditure demands so far as possible to reduction in costs or services elsewhere in Government; and (d) to encouraging and developing private enterprises to carry on essential operations now deemed to be inadequate by Government, such as the financing of housing, supplying capital to small business, etc. Only by the acceptance of such principles can true budget economy be effective without the diseconomies of indiscriminate curtailing of needed normal

[26] The Secretary of State recently testified that the global aid program will call for authorizations of $25 billion in the next 3 years.
[27] See footnote 24, p. 24.

governmental functions. It should be recognized, of course, that reduction in Federal Government programs would not necessarily reduce inflationary pressures if the programs were merely taken over by State and local governments or private business.

Inflation in other countries

Inflation is not a strictly domestic program. Data from the July 1951 Midyear Economic Report of the President (shown in appendix A, table XV, p. 43) reemphasize the world-wide character of the inflationary pressures which were stressed in part II of the staff materials submitted to the committee in February 1951 under the title "The Economic and Political Hazards of an Inflationary Defense Economy." Although wholesale prices in the United States soared a near record of 16 percent after June 1950, in many foreign countries the increases were even greater; for example, 40 percent in France, 26 percent in Italy, 30 percent in Norway, 27 percent in the United Kingdom, 31 percent in Australia. In Canada the increase was 16 percent—the same as in the United States. It would be useful for this committee to investigate in greater detail the domestic implications of this world-wide inflationary development.

LONG-TERM IMPLICATIONS OF THE DEFENSE PROGRAM

This committee has repeatedly emphasized since last July that the Nation faces a long period—perhaps a decade or more—of high-defense expenditures and international tensions. It pointed out that even if peaceful settlement is effected in one area, international communism directed from the Kremlin may continue at various times and places over many years to generate and make use of trouble spots which will threaten the peace of the world and the survival of all free nations. Some of the implications of these circumstances over the next 4 or 5 years deserve careful analysis.

It has already been pointed out that the Federal budget may be substantially larger for fiscal 1953 than for fiscal 1952, even assuming an early peaceful settlement in Korea. If the present program of defense preparedness is carried through to completion in accord with present plans and objectives (as this staff is able to interpret them), it would appear that total budget expenditures might reach a peak of about $87 billion in fiscal 1953, and drop slightly to about $84 billion in fiscal 1954, then to about $72 billion in fiscal 1955, and then stabilize at about $60 billion in fiscal 1956.[28]

It is further apparent on the basis of present estimates that Federal budget receipts, even including the House bill, would not be adequate to pay for these expenditures until after fiscal 1954 (see chart 2, p. 45). This implies that the budget would show a deficit for the three fiscal years 1952 through 1954, after which it could be balanced. The first implication of the present defense program is that the Federal budget will be inflationary at least through fiscal 1953 and possibly into fiscal 1954, unless additional taxes above the House bill are enacted.

The second implication can be derived from an examination of the relationship between gross national product and Government expenditures (see appendix A, table XII, p. 41, and chart 3, p. 46). Federal defense expenditures for goods and services took about 4.9 percent of gross national product in fiscal 1950; this rose to 7.2 percent in fiscal 1951 and it is estimated at almost 15 percent for 1952; for fiscal 1953 the ratio may rise to over 18 percent. Subsequently the proportion may decline as gross national product increases and defense expenditures taper off. At the peak, therefore, of the defense effort in fiscal 1953, Federal, State, and local expenditures for defense and nondefense activities may total over 26 percent of gross output. Such is approximately the schedule outlined in the First Quarterly Report of the Director of Defense Mobilization:

> With the fullest degree of drive and unity, we can do this job by 1953. By that date our readiness to enter upon total mobilization should be sufficient; and production, in addition to meeting current military needs, should support a civilian economy at or above pre-Korean levels.[29]

[28] The details of the derivations of these projects are shown in appendix A, pp. 33–36, and tables I and II, p. 36.
[29] First Quarterly Report to the President by the Director of Defense Mobilization, p. 2.

In his recent second quarterly report, Mr. Charles E. Wilson, Director of Defense Mobilization, made clear the need for strong fiscal, monetary, and direct control measures until the hump is passed:

> The Congress is now considering the President's recommendations for extending and strengthening the Defense Production Act. I cannot stress to strongly the importance of a sound and workable statute. In the months to come we will need the powers of the act even more than we have thus far.
>
> Neither of the twin pillars of our defense mobilization structure—neither the defense production program nor the economic stabilization program—can succeed without a strong Defense Production Act. [30]
>
> If we permit the present bill to lure us into weakening our system of controls, and delaying other measures to counter inflation, we run the risk of paying a severe penalty in the months to come. We cannot scrap controls and then put them together again in a hurry.[31]

After the hump

If the economy is over the hump by mid-1953, what then? Will the most pressing inflationary dangers to the economy be at an end? Defense requirements will be tapering off; civilian production will be rising; shortages will be disappearing. But, will the general economic climate be more nearly on a peacetime basis, assuming, of course, that there will be no full-scale war prior to June 30, 1956, the terminal date of these projections?

Secondly, even after this hump is passed will this Nation be faced with a much larger Federal budget than has ever before been contemplated in peacetime? If so, despite substantial expansion of the economy, taxes will have to be uncomfortably higher than before June 1950. Some worth while and desirable civilian activities may still have to be curtailed in the interest of national survival, despite the fact that the Government will still be providing a substantial stimulus to the economy.

From the standpoint of the Joint Committee on the Economic Report, the most important implication of the analysis is that at an early date it will need answers to a number of extraordinarily difficult questions. For example:

What will be private investment requirements after the hump?

Will there be sufficient private domestic investment to offset the decline of military expenditures?

How can such private investment be stimulated?

What will be the demand for housing? What kind of financing will this require?

Will there be a sufficient supply of industrial raw materials to enable the economy to operate at high levels?

What will consumer demand for goods and services be? Will it be sufficient to insure high employment?

To what extent can the economic and political interests of this Nation be served advantageously by international programs? Of what type and scope?

Will the labor force grow faster than economic expansion can provide jobs?

What kind of monetary, credit, and fiscal policies in the immediate future will contribute most to maintaining maximum

[30] Second Quarterly Report to the President by the Director of Defense Mobilization, p. 5.
[31] Second Quarterly Report to the President by the Director of Defense Mobilization, p. 4.

production, employment, and purchasing power when the hump is passed?

Will research, technology, new industries, and new enterprises go forward at the pace necessary for a stable economy at maximum employment? What will be the effect on these of channelizing efforts to defense, standardizing items for economy in the emergency, and the lack of materials, manpower, and credit during the emergency?

What will be the implications for both the long-term conservation and the development of resources of the very high rate of utilization of scarce resources during the defense period? What problems are raised by the United States becoming increasingly dependent upon access to other regions for necessary materials to sustain, let alone to expand, the industrial machine which will exist when the present program has been achieved?

APPENDIXES

APPENDIX A

TECHNICAL APPENDIX

The assumptions underlying the calculations of the inflationary pressure presented in this report are essentially the same as those outlined in the text and in appendix C of the February 1951 materials prepared by the staff under the title, "The Economic and Political Hazards of an Inflationary Defense Economy." There are some changes in the assumptions because of changed circumstances and revisions in basic data since February. Some of these are obvious from an examination of the tables and the text. In setting up these assumptions, the staff has taken into account the analyses and comments of technicians in and out of Government. In general, we are consistent with the Council of Economic Advisers and the Second Quarterly Report of the Director of Defense Mobilization as to output of gross national product and defense requirements. The assumptions are as follows:

Prices

The February report was calculated in terms of prices at the average of the December 1950–January 1951 period which was then estimated to be about 6 or 7 percent above June 1950. The present report, on the other hand, is calculated in terms of prices at about the June 1951 level; for example, consumers' prices about 185.2 (1935–39=100), or 8.8 percent above June 1950.

Taxes under present laws

Tax rates are the same as those assumed in the February report since no new tax bill has been passed as yet, but revisions in official estimates made it necessary for this staff to raise some of the estimates of the tax receipts used in the February analyses. The present estimated tax yields are consistent with the published report of April 1951 of the Joint Committee on Internal Revenue Taxation, adjusted only for change in the estimate of corporate profits, and personal income.

Savings

In the February report it was assumed that net personal savings during fiscal 1952 would amount to about 5 percent of disposable personal income. Since that time, various analysts have suggested the probability that credit restrictions and the lack of availability of durable consumer goods may force consumers to increase their savings beyond this normal rate. It was suggested further that the decline in purchases of durable consumer goods would increase savings rather than cause a shift of purchasing to nondurable goods and services. The experience of World War II seems to argue strongly in this direction. When many consumer durable goods ceased to be available as a result of production restrictions of the War Production Board, and other wartime forces came into effect, e. g., large-scale deficit financing, consumer savings began to mount rapidly. In 1944, net personal savings were about 24.1 percent of disposable personal income. While most analysts would not expect any such rise under present circumstances, it was suggested that savings might increase from 5 percent to perhaps 7 percent of disposable personal income.

In spite of the experience of World War II, the staff believes that the original assumption of last February, that net personal savings would amount to about 5 percent of disposable personal income during fiscal 1952, is a more reasonable assumption to make for policy purposes though some slight increase might be made. In the first place, 5 percent was about the average ratio maintained during the entire postwar inflationary period from 1948 through 1950. Secondly, recent periods, when consumer savings have been in excess of this 5 percent, uniformly have been short periods of about one-quarter of a year in which unusual windfall increases in income occurred. Thus, consumer savings were about 6.3 percent of disposable personal income in the first quarter of 1950 and 7.8 percent in the fourth quarter of 1950. In the first quarter, there were the unusual national service life insurance dividend payments to veterans which increased savings markedly; in the fourth quarter, there were rather exceptional payments of dividends on stocks. They rose $1.7 billion (annual rate) from the third quarter to the fourth quarter. Moreover, in the previous quarter the savings rate was only 2.2 percent as a result of a consumer buying splurge which was corrected in the fourth quarter. The average for the third and fourth quarters of last year was 5 percent. In the first quarter of 1951 savings had dropped back again to about 4.3 percent of disposable personal income but increased to almost 9 percent in the second quarter.[1]

The lower average percentage of savings may again continue. Various studies of savings, particularly the Surveys of Consumer Finances by the Federal Reserve Board, have indicated that the bulk of positive savings are made in the middle and upper income brackets. These are the very income brackets that are least dependent on consumer credit and hence whose purchases of consumer durable goods will be least affected by credit restrictions. Furthermore, increased corporate taxes and corporate needs for expansion of capacity may result in some reduction in dividend payments below recent rates. Some of these reductions in dividends are likely to almost entirely reduce savings rather than consumption.

Savings went up sharply during World War II not merely because consumer durable goods were scarce and credit restrictions were applied but also because (*a*) there were literally no consumer durable goods to bid for in many lines, and (*b*) there were all-out price controls reenforced by rationing both strengthened by zealous wartime patriotism. It should also be noted that we are entering this period with a larger backlog of savings than was the case in 1940 at the end of a 10-year depression.

If inflationary pressures continue, prices will continue to rise somewhat in spite of price controls. With the dollar depreciating con-

[1] See Midyear Economic Report of the President, July 1951, table B-9, p. 233.

sumers may not increase their rate of savings much beyond the average 5-percent rate. Furthermore, there will be available a limited supply of consumer durables which each individual can hope to divert to his own use if he bids high enough.

Under such circumstances, it would be risky to base public policy on the assumption that consumers will save unusual amounts beyond the rates prevailing in recent years. If consumers, in fact, do save a greater percentage of their income, which some analysts expect, so much the better. Conservative public policy, however, is more soundly based on the facts of average savings rates. Therefore, the estimates of personal savings in this report have been increased only to a rate of about 5.5 percent of disposable personal income.

Gross private investment

In the February report it was assumed that gross private domestic investment plus net foreign investment could be held to about $46.2 billion (assuming a Federal cash budget of $71.0 billion). Since that time, the various surveys of business investment plans (such as those of the Department of Commerce and the McGraw Hill Publishing Co.), and actual reports on investment, would seem to indicate that the figure may be closer to $49 billion in fiscal year 1952.

Indirect business tax and nontax liability

In the February report, this item was estimated at $25 billion for fiscal 1952 on the basis of the existing tax rates and price levels. This memorandum revises this upward to about $26 billion to reflect the effect at existing rates of an increased dollar volume of transactions.

Contributions for social insurance

The previous estimate of about $8 billion for contributions for social insurance has been revised upward slightly to about $8.5 billion in line with the experience revealed by latest data on the impact of rising employment on social-security contributions.

The output assumption

The February report assumed that for the fiscal year 1952 total employment might be 8.4 percent above fiscal year 1950, average weekly hours might be increased 4.3 percent, and productivity might rise about 4 percent above fiscal 1950 levels. On this basis gross national product in terms of June 1950 prices would amount to about $310 billion. More recent analysis indicates that there may be a greater increase in productivity than assumed but less of an increase in average weekly hours. (See table III, p. 37.) These two modifications are offsetting. Since increases in average weekly hours require premium pay in the typical case, management increases hours only to the extent that they cannot realize an increase in output per man-hour. It appears therefore that the underlying assumption as to total gross national output is still reasonable though it may be derived on the basis of slightly different levels of productivity and average weekly hours than originally assumed. A comparison of quarterly changes as they have actually developed with the original quarterly pattern seems to bear out this conclusion.

The revised assumptions as to employment, average weekly hours, productivity, and output of gross national product in constant prices are given in table III which is extended through fiscal 1954. The present gross national product data are shown in terms of prices as of June 1951. The data would be about the same if the average of prices in the first half of 1951 were used instead. The levels and trends in the data may be compared directly to historical data in table B-3 of the July 1951 Midyear Economic Report of the President.

Corporate profits and personal income

In the February report corporate profits and inventory valuation adjustment were estimated at an annual rate of $44 billion for fiscal year 1952 and personal income was estimated at $244.5 billion. In the present report corporate profits and inventory valuation adjustment have been reduced to $43 billion and personal income raised to $262.4 billion. About $10 billion of the increase in personal income is due entirely to increases in prices, wage rates, and to revisions in basic data by the Department of Commerce since the February report was prepared. In other words, they mainly reflect changes in the general level of the economy between January and June of 1951 and data revision.

However, $7.9 billion of the increase in personal income and the $1 billion reduction in the estimate of corporate profits and inventory valuation adjustment reflect developments in the control program. Since February the development of policies in regard to wages and wage stabilization by the Wage Stabilization Board have made it evident that further increases in wage rates will occur. Some of these will represent the catching up of lagging groups with increases already obtained by other groups. In other cases inequities will be corrected or increases permitted in order to attract labor to critical areas, occupations or plants. This means the total of wages and salaries will rise appreciably more than could be accounted for by increasing employment and hours of work, thus further increasing personal income.

In regard to the estimate of corporate profits, the assumption that prices can be stabilized at the present level would imply that the inventory valuation adjustment would become zero. This would reduce corporate profits according to most recent data by almost $9 billion, to about $43 billion. Further increases in economic activity assumed in this model would imply increases in corporate profits above this level. Some cost absorption under price control orders will still be permitted even under the amended Defense Production Act as just passed. It is estimated that cost absorption and lower profit margins on defense contracts than on civilian goods will just about offset profit increases due to volume increases, so that corporate profits will average about $43 billion in fiscal 1952.

These adjustments in the estimates of corporate profits also mean that the estimates of corporate income and excess-profits taxes contained in this model are below the estimates of the Treasury and the estimates of the Joint Committee on Internal Taxation.

Federal expenditures assumptions and the defense program

It is difficult to attain a thorough understanding of the economic issues and problems which the Nation faces in the immediate future without taking a longer term view as to what the defense program implies concerning further budget expenditures on the part of the Federal Government. The staff, therefore, has tried to set down what it believes to be reasonably realistic assumptions as to what is involved in the military program. It has then attempted to translate this into budget expenditures. For this purpose we have constructed expenditures on an administrative budget basis comparable to that regularly submitted to the Congress by the President in his January budget message.

The first task in making these projections of the budget has been to project the military expenditures. The basic projection is that of Defense Department expenditures for military functions. These estimates as presented in table I are based upon the following assumptions:

(1) Average prices will remain at about the March 1951 level on products purchased by the Defense Department, but economies of scale of output will reduce unit prices on many items.

(2) Military pay scale will remain at about the level prevailing in March 1951.

(3) The total military armed forces will be held at about the 3½ million persons level provided in present plans, this level to be reached during the fiscal year 1952.[2]

(4) There will be no major war prior to June 30, 1956.

(5) Allowance is made for attrition—that is, excessive use of military funds under active military engagements with an enemy—only until December 1951. In other words, active military operations is assumed to cease in Korea on or before that date. For each 6 months of active operation in Korea beyond December 31, 1951, several billion dollars will have to be added to eventual expenditures over the period of the estimate.

(6) It is assumed that when the planned military strength is fully achieved it will cost thereafter about $35 billion each year to operate and keep modern the Military Establishment. This is in line with a statement of Secretary Marshall before the House Armed Services Committee recently.

(7) It is assumed that present plans as to plant capacity, military equipment, and stockpiling are carried out. This means the plans as now publicly known.

(8) It is assumed that appropriations covering major military procurement—aircraft, ships, weapons, etc.—are spent over a

[2] The elements of our armed strength to be provided under present programs were spelled out by the President in the budget for the Department of Defense, transmitted to the Congress in April 1951, p. 3, as follows:

"In the last 10 months, we have more than doubled the active strength of our Armed Forces. During the fiscal year 1952 we will reach our present goal of about 3.5 million men and women. These forces will steadily increase in combat readiness as those now in training status are assigned to combat units.

"For the Army, these funds will equip and maintain 18 divisions plus separate combat and supporting units. The Navy, under these recommendations, will maintain an active fleet of 1,161 ships. The Marine Corps will maintain 2⅓ divisions and other supporting units. The Air Force will continue to build toward 95 air wings.

"In addition to these forces on active duty, about 2 million men and women will be in the military Reserve and ROTC programs and the National Guard establishments. The value of the Reserve forces has been proved again in recent months, as 520,000 Reserves have been called to active duty. We shall continue to emphasize the training of more Reserve forces.

"Most of the funds in this military budget will be spent for military equipment and supplies, and for constructing bases, camps, and other facilities. Of the total of $60.7 billion of new obligational authority, about $43 billion is for procurement and construction. About $34.7 billion will be used to purchase heavy equipment such as ships, planes, tanks, artillery, trucks, ammunition, guided missiles, and electronics. Planes alone total $14.5 billion of this.

"This equipment will be of the most up-to-date kinds, and will substantially complete the program of modernizing the combat equipment of the Armed Forces.

"We shall, at the same time, continue to step up the research and development program. The funds in this budget will support a program about 20 percent larger than in the current fiscal year and about 2½ times as large as in fiscal year 1950."

period of 4 to 5 years, with the largest expenditures coming in the second year. Appropriations covering pay and services, however, are generally completely spent within a 2-year period, with the bulk of the money spent during the first year.

(9) It is assumed that the peak of obligations will be reached during the second half of fiscal 1952. Because of the time lag, the peak of expenditures will not be reached until about 1 year after the peak in obligations or in fiscal 1953.

Table I (p. 36) gives the estimates resulting from these assumptions and indicates the relationship between net new authority, total funds available, and budget expenditures.

On the basis of the assumptions made and data reported up through June 30, 1951, by the Treasury, Defense Department expenditures for military functions which amounted to $19.2 billion for the fiscal year 1951, will be about $40 billion for fiscal 1952, about $55.5 billion for the fiscal year 1953, and will then decline for the following three fiscal years to about $50 billion in fiscal 1954, to about $40 billion in fiscal 1955, and, finally to about $35 billion in fiscal 1956.

In addition to the sum spent by the Defense Department for military functions, there are other military expenditures for such items as stockpiling, atomic energy, and Mutual Defense Assistance Pact. Furthermore, there are other expenditures for international programs, interest on the debt, veterans, and civilian functions. The staff has constructed a total administrative budget, shown in table II. There is implied in this budget a substantial foreign-aid program for both economic and military aid, principally military. Amounts for foreign economic and military aid included are about $4 billion in fiscal 1951, will be $4 billion in fiscal 1952, about $8 billion in fiscal 1953, about $11 billion in fiscal 1954, about $10 billion in fiscal 1955, and perhaps $3 or $4 billion in fiscal 1956. These sums include all expenditures for international security and foreign affairs as defined in the budget message of the President in January 1951. It may be that some of these expenditures can be curtailed. It may be that some of them can be postponed. But in view of the magnitude of the military effort required it would appear that these figures for military and other programs would not be excessive.

It will be noted from table II (p. 36) that this implies that budget expenditures will rise from $44.6 billion in fiscal 1951 to $68.4 billion in fiscal 1952. In the following fiscal year 1953 there will be a further substantial rise to about $87.3 billion due principally to defense requirements, as set forth above and in table I. From that point, budget expenditures would begin to decline—the Nation would be past the hump in the defense program. The total would decline to $84 billion in fiscal 1954, and substantially to $72 billion in fiscal 1955, and finally would level out at about $60 billion in 1956. This eventual budget of $60 billion would be, in terms of present-day prices, about the sum needed to carry on as economically as possible normal civilian governmental activities, pay interest on the Federal debt, take care of veterans, and maintain our Defense Establishment at full readiness on as economical base as possible.

Any such estimates of Government budgets for long periods into the future are naturally fraught with grave hazards. Changes in international conditions, changes in military science, research and development into new weapons, all can alter the estimates drastically. It may be useful in providing a perspective to try to construct a timetable of how present programs would work themselves out if never altered seriously. These estimates are not recommendations; they are not forecasts; they are merely projections in terms of present prices and pay scales of how present plans to modernize the Defense Department and to expand task forces to a permanent 3½ million man status would work out. Either a forecast or a recommendation would have to take into account many possible changes in program in the future that cannot now be appraised.

TABLE I.—*Authorizations, total funds available, and administrative budget expenditures for Defense Department military functions, actual fiscal year 1951, estimated 1952–56*

[Billions of dollars]

Fiscal year	Brought forward from prior years	Net new authority	Total funds available	Budget expenditures	Carry-over to following year
1951	9.4	47.6	57.0	19.2	37.8
1952	37.8	60.7	98.5	40.0	58.5
1953	58.5	45.0	103.5	55.5	48.0
1954	48.0	35.0	83.0	50.0	33.0
1955	33.0	35.0	68.0	40.0	28.0
1956	28.0	35.0	63.0	35.0	28.0

Source: Staff, Joint Committee on the Economic Report.

TABLE II.—*Authorizations, total funds available, and total administrative budget expenditures, actual fiscal year 1951, estimated 1952–56*

[Billions of dollars]

Fiscal year	Brought forward from prior years	Net new authority	Total funds available	Budget expenditures	Carry-over to following year
1951	16.7	87.5	104.2	44.6	59.6
1952	59.6	94.4	154.0	68.4	85.6
1953	85.6	75.0	160.6	87.3	73.3
1954	73.3	65.0	138.3	84.0	54.3
1955	54.3	60.0	114.3	72.0	42.3
1956	42.3	60.0	102.3	60.0	42.3

Source: Staff, Joint Committee on the Economic Report.

TABLE III.—*Gross national product in constant prices, employment, average weekly hours, and productivity, actual fiscal years 1949–51, estimated 1952–54*

Fiscal year	Total employment [1]		Average weekly hours		Productivity index (1950=100) [2]	Gross national product in constant prices [3]	
	Actual (millions of persons)	Index (1950=100)	Actual	Index (1950=100)		Actual (billions of dollars)	Index (1950=100)
1949	60.7	100.5	42.5	101.7	95.6	278.4	97.7
1950	60.4	100.0	41.8	100.0	100.0	285.0	100.0
1951	63.1	104.5	41.8	100.0	105.8	315.3	110.6
1952	65.5	108.4	42.3	101.2	108.7	340.0	119.3
1953	66.4	109.9	42.7	102.2	110.9	355.0	124.6
1954	67.0	110.9	42.7	102.2	113.1	365.0	128.1

[1] Including armed services.
[2] The productivity index actually amounts to an index of output of gross national product per man-hour. It includes not only changes in output per man-hour which can be traced to increased technical efficiency, but also (1) changes in output per man-hour due to increases in percent of capacity operated; (2) changes in composition of output from industries with a lower output of gross national product per man-hour to those with a greater output of gross national product per man-hour; and (3) errors of measurement in total employment, hours of work, and gross national product.
[3] Prices as of June 1951.

Source: Staff, Joint Committee on the Economic Report.

TABLE IV.—*Estimated excess consumer inflationary demand on the basis of existing tax program, fiscal year 1952*

[Billions of dollars]

Description	1952
Gross national product (current prices) [1]	340.0
Less:	
Capital-consumption allowances	24.0
Indirect business tax and nontax liability	26.0
Business transfer payments	.8
Plus: Subsidies less current surplus of Government enterprises	0
Equals: National income	289.2
Less:	
Corporate profits and inventory valuation adjustment	43.0
Contribution for social insurance	8.5
Excess of wage accruals over disbursements	0
Plus:	
Government transfer payments	11.0
Net interest paid by Government	4.9
Dividends	8.0
Business transfer payments	.8
Equals: Personal income	262.4
Less:	
Personal tax and nontax payments	30.4
Federal	27.4
State and local	3.0
Equals: Disposable personal income	232.0
Less: Personal savings	13.0
Equals: Consumer demand	219.0
Supply (prices at beginning of period): [1]	
Expenditures for gross national product	340.0
Less:	
Gross private investment	49.0
Federal purchases of goods and services	56.0
State and local government purchases of goods and services	21.0
Equals: Consumer supply	214.0
Consumer inflationary pressure, excess of consumer demand over supply	5.0

[1] Prices as of June 1951.

Source: Staff, Joint Committee on the Economic Report.

TABLE V.—*Estimated business inflationary pressure on the basis of existing tax program, fiscal year 1952*

[Billions of dollars]

Description	1952
Demand (current prices): [1]	
Corporate profits before taxes	43.0
Less:	
Corporate profits tax liability	21.0
Dividends	8.0
Plus:	
Capital consumption allowances, etc	24.0
Dissaving	14.0
Equals: Business demand	52.0
Supply (prices at beginning of period): [1]	
Expenditures for gross national product	340.0
Less:	
Federal Government purchases of goods and services	56.0
State and local government purchases of goods and services	21.0
Consumer expenditures	214.0
Equals: Business supply	49.0
Business inflationary pressure: Excess of business demand over supply	3.0

[1] Prices as of June 1951.

Source: Staff, Joint Committee on the Economic Report.

TABLE VI.—*Federal Government tax legislation and its estimated economic effects, fiscal year 1952*

[Billions of dollars]

Description	Net additional Government funds and private liabilities [1]	Estimated economic effects on— Corporate undivided profits	Personal income	Consumer demand	Individual savings	Gross national product
House-passed bill:						
Individual: Income taxes	3.3			−1.7	−0.8	
Business:						
Excise taxes	1.2			−0.8		+0.8
Corporation income taxes	2.6	−1.6	[2] −1.0	−0.7	−0.1	
Total	7.1	−1.6	−1.0	−3.2	−0.9	+0.8
Proposed addition to close gap in 1952:						
Individual: Income taxes	2.9			−1.8	−0.2	
Total	2.9			−1.8	−0.2	
Grand total	10.0	−1.6	−1.0	−5.0	−1.1	+0.8

[1] Shown on a full year liability basis; individual tax liability for fiscal 1952 would be less because of the assumed Oct. 1, 1951, effective date for individual income taxes and business excise taxes; equivalent collections in fiscal 1952 shown in table IX, p. 39. The House-passed bill provides for individual income taxes and business excise taxes to become effective Sept. 1, 1951. Corporate income taxes effective Jan. 1, 1951.
[2] Would reduce estimated personal taxes $0.2 billion.

Source: Staff, Joint Committee on the Economic Report.

TABLE VII.—*Federal administrative budget expenditures and receipts, actual fiscal years 1950 and 1951, estimated 1952–54*

[Billions of dollars]

Fiscal years	Expenditures	Receipts (present law)	Receipts (including House bill)	Receipts (including tax increase of $10 billion)
1950	40.2	37.0		
1951	44.6	48.1		
1952	68.4	[1] 61.4	[1] 66.4	[1] 68.4
1953	87.3	66.0	75.0	78.0
1954	84.0	70.0	80.0	84.0

[1] Assumes personal income of $262.4 billion and corporate profits before taxes of $43 billion for fiscal 1952.

Source: Staff, Joint Committee on the Economic Report.

TABLE VIII.—*Consumer and real-estate debt of individuals with estimated monthly contractual reduction and estimated reduction at hypothetically*[1] *higher rates*

[Billions of dollars]

Class of credit and average maturity	Amounts outstanding Mar. 31, 1951	Estimated contractual reduction per month	Estimated reduction per month if contemplated rate of reduction anticipated by 10 percent	Estimated reduction per month if contemplated rate of reduction anticipated by 20 percent
Installment credit:				
Automobile sales (15 months)	4.0	0.27	0.30	0.32
Other sales (15 months)	3.4	.23	.25	.28
Loans (12 months)	5.6	.46	.51	.55
Total instalment credit	13.0	.96	1.06	1.15
Charge accounts (120-day) [2]	3.9	.97	1.07	1.16
Other consumer credit (120 day) [2]	2.5	.63	.69	.76
Total	19.4	2.56	2.82	3.07
Mortgages 1 to 4 family nonfarm residence (180-month) [3]	47.5	.26	.29	.32
Total	66.9	2.82	3.11	3.39

[1] Hypothetical in the sense that many debt contracts have no provision for accelerated repayment and many of those owing debts are not among those who could increase voluntarily their savings.
[2] While maturity of open accounts is flexible in the "contractual" sense, 120 days has been taken as an average "business" limit.
[3] Estimated on basis of 47.1 as of Dec. 31, 1950.

Source: Staff, Joint Committee on the Economic Report.

TABLE IX.—*Estimated additional taxes and controls needed to remove inflationary pressures, fiscal year 1952*

[Billions of dollars]

	Tax liability [1]	Tax collections	Deflationary effect
Effect on the consumer inflationary excess demand of—			
Increased personal taxes	6.2	4.5	3.5
Increased excise taxes	1.2	.8	.8
Increased corporate taxes	2.6	1.7	.7
Total	10.0	7.0	5.0
Effect on the business inflationary excess demand of—			
Increased corporate taxes	2.6	1.5	1.6
Increased corporate savings or reduced dissavings due to allocations and credit controls			1.4
Total	2.6	1.5	3.0

[1] See footnote 1 to table VI (p. 38).

Source: Staff, Joint Committee on the Economic Report.

TABLE X.—*Summary of the Nation's economic budget,*[1] *fiscal year 1952 (assumes enactment of $10 billion additional taxes)*

[Billions of dollars]

Incomes from national production	1952[2]	Expenditures for national production	1952[2]
INDIVIDUAL CONSUMERS		INDIVIDUAL CONSUMERS	
		Durable goods	26.5
Disposable personal income	226.7	Nondurable goods	121.3
Personal savings (−)	−11.9	Services	67.0
Total	214.8	Total	214.8
BUSINESS		BUSINESS	
		New construction	20.0
Corporate undivided profits	12.4	Producers' durable equipment	27.0
Capital consumption allowances, etc	24.0	Change in business inventories	3.0
Dissavings (+)	+12.6	Net foreign investment	−1.0
Total	49.0	Total	49.0
STATE AND LOCAL GOVERNMENT		STATE AND LOCAL GOVERNMENT	
Personal tax and nontax receipts[3]	3.0	Purchases of goods and services	21.0
Business tax and nontax liabilities[3,4]	16.0		
Contributions for social insurance	1.0		
Payments other than for goods and services (−)	−0.3		
Dissaving (+)	+1.3		
Total	21.0	Total	21.0
FEDERAL GOVERNMENT		FEDERAL GOVERNMENT	
Personal tax and nontax receipts[3]	31.7	Purchases of goods and services:	
Business tax and nontax liabilities[3,4]	34.4	Defense	49.5
Contributions for social insurance	7.5	Nondefense	6.5
Payments other than for goods and services (−)	−15.6		
Saving (−)	−2.0		
Total	56.0	Total	56.0
Grand total	340.8	Grand total	340.8

[1] This form of the Nation's economic budget is based on the Department of Commerce's concepts and data. See footnote 10, p. 14.
[2] Assumes that anti-inflation program successfully stabilizes prices at the June 1951 level.
[3] National income for fiscal year 1952 assumed to be $289.2 billion; and personal income to be $261.4 billion.
[4] Corporate profits before taxes and inventory valuation adjustment assumed to be $43 billion in fiscal year 1952.

Source: Staff, Joint Committee on the Economic Report.

TABLE XI.—*Estimated additional tax collections and the Federal budget, fiscal year 1952*

[Billions of dollars]

Cash consolidated statement:	
Cash expenditures	71.0
Cash receipts (present law)	68.0
Cash deficit (present law)	3.0
Administrative budget deficit	7.0
House-passed bill:	
Increase in individual income taxes	2.5
Increase in excises	.8
Increase in corporation taxes	1.7
Total collections	5.0
Cash surplus	2.0
Administrative budget deficit	2.0
Proposed additional taxes:	
Increase in income taxes (collections)	2.0
Cash surplus	4.0
Administrative budget, surplus or deficit	0

Source: Staff, Joint Committee on the Economic Report.

TABLE XII.—*Gross national product and expenditures*[1] *for goods and services by Federal, State, and local governments, actual fiscal years 1950 and 1951, estimated 1952–54*

[Billions of dollars]

Fiscal year	Gross national product	Total expenditures	Federal defense[5]	Federal nondefense	State and local
1950[2]	263.5	41.8	12.9	10.4	18.5
1951[3]	309.6	49.6	22.4	6.7	20.5
1952[4]	340.0	77.0	49.5	6.5	21.0
1953[4]	355.0	92.5	65.0	6.5	21.0
1954[4]	365.0	90.5	62.0	6.5	22.0
PERCENTAGE DISTRIBUTION					
1950	100.0	15.8	4.9	3.9	7.0
1951	100.0	16.0	7.2	2.2	6.6
1952	100.0	22.7	14.6	1.9	6.2
1953	100.0	26.1	18.3	1.8	5.9
1954	100.0	24.8	17.0	1.8	6.0

[1] Excludes expenditures other than for goods and services such as transfer payments, for example, social security payments or interest on the public debt.
[2] Prices at the average of 1950 fiscal year.
[3] Prices at the average of 1951 fiscal year.
[4] Prices at the average of the 3 months, April–June 1951.
[5] Based on Treasury bulletin breakdown of Federal budgetary expenditures adjusted to the concept of purchases of goods and services; includes "National defense and related activities," Atomic Energy, and Mutual Defense Assistance.

Source: Staff, Joint Committee on the Economic Report.

TABLE XIII.—*Estimated distribution of individual income-tax return, tax liability, and percentage distribution under present law and under House bill*

[Money amounts in millions]

Adjusted gross income classes	Taxable returns		Total tax under—		Tax increase, House bill over present law	Percentage distribution under—	
	Total number	Percent	Present law[1]	House bill		Present law	House bill
Under $1,000	1,868,095	4.23	$54	$61	$7	0.23	0.23
$1,000 to $2,000	6,991,074	15.82	842	947	105	3.59	3.60
$2,000 to $3,000	10,908,014	24.69	2,245	2,526	281	9.57	9.60
$3,000 to $4,000	9,830,797	22.25	2,871	3,229	358	12.24	12.28
$4,000 to $5,000	6,262,777	14.17	2,672	3,002	330	11.39	11.41
$5,000 to $10,000	6,645,679	15.04	5,080	5,707	628	21.66	21.70
$10,000 to $25,000	1,342,865	3.04	3,488	3,908	420	14.87	14.86
$25,000 to $50,000	247,141	.60	2,289	2,560	271	9.76	9.73
$50,000 to $100,000	70,115	.16	1,862	2,086	224	7.94	7.93
$100,000 to $250,000	18,276	.04	1,276	1,429	153	5.44	5.43
$250,000 to $500,000	1,967	[2]	378	418	40	1.61	1.59
$500,000 to $1,000,000	479	[2]	192	209	17	.82	.79
$1,000,000 and over	189	[2]	206	219	13	.88	.83
Total	44,187,468	100.00	23,455	26,302	2,847	100.00	100.00

[1] Includes normal tax, surtax, and alternative tax on net long-term capital gains.
[2] Less than 0.005 percent.

NOTE.—Figures are rounded and may not add to totals.
Source: Revenue Act of 1951, report of the Committee on Ways and Means, House of Representatives, H. Rept. 586, 82d Cong., 1st sess.

TABLE XIV.—*Comparison of effective individual income-tax rates and individual income-tax burden under House bill and present law*

A. SINGLE PERSON—NO DEPENDENT

Selected net income levels [1]	Present law		House bill	
	Amount of tax	Percent	Amount of tax	Percent
$800	$40	5.0	$45	5.6
$1,000	80	8.0	90	9.0
$1,500	180	12.0	203	13.5
$2,000	280	14.0	315	15.8
$3,000	488	16.3	549	18.3
$5,000	944	18.9	1,062	21.2
$8,000	1,780	22.3	2,003	25.0
$10,000	2,436	24.4	2,741	27.4
$15,000	4,448	29.7	5,004	33.4
$20,000	6,942	34.7	7,810	39.1
$25,000	9,796	39.2	11,021	44.1
$50,000	26,388	52.8	29,687	59.4
$100,000	66,798	66.8	74,831	74.8
$500,000	429,274	85.9	450,000	[2] 90.0
$1,000,000	870,000	[3] 87.0	900,000	[2] 90.0

B. MARRIED COUPLE—2 DEPENDENTS

Selected net income levels [1]	Present law amount of tax	Present law percent	House bill amount of tax	House bill percent
$3,000	$120	4.0	$135	4.5
$5,000	520	10.4	585	11.7
$8,000	1,152	14.4	1,296	16.2
$10,000	1,592	15.9	1,791	17.9
$15,000	2,900	19.3	3,263	21.8
$20,000	4,464	22.3	5,022	25.1
$25,000	6,268	25.1	7,052	28.2
$50,000	18,884	37.8	21,245	42.5
$100,000	51,912	51.9	58,401	58.4
$500,000	402,456	80.5	432,027	86.4
$1,000,000	857,456	[3] 85.7	[2] 900,000	[2] 90.0

[1] Income after deductions but before exemptions.
[2] Maximum effective rate limitation of 90 percent.
[3] Maximum effective rate limitation of 87 percent.

Source: Revenue Act of 1951, report of the Committee on Ways and Means, House of Representatives, H. Rept. 586, 82d Cong., 1st sess.

TABLE XV.—*Percentage increases in wholesale prices in the United States and foreign countries since June 1950*

Country	Percentage increase from June 1950 to latest date		Latest date
	Actual	Annual rate	
United States	16	16	June 1951.
Africa and Near East:			
Algeria	14	21	February 1951.
Egypt	15	18	April 1951.
Iran	15	16	May 1951.
Iraq	7	8	April 1951.
Israel	3	4	February 1951.
Lebanon	39	43	May 1951.
Morocco	27	32	April 1951.
Tunisia	21	28	March 1951.
Union of South Africa	12	13	May 1951.
Western European countries:			
Austria [1]	36	39	Do.
Belgium	30	33	Do.
Denmark	34	37	Do.
France	37	40	Do.
Germany (Federal Republic) [2]	24	29	April 1951.
Greece	20	22	May 1951.
Ireland	16	19	April 1951.
Italy	22	26	Do.
Netherlands	27	32	Do.
Norway	30	30	June 1951.
Portugal	9	11	April 1951.
Spain	34	41	Do.
Sweden	33	40	Do.
Switzerland	18	20	May 1951.
Turkey	21	28	March 1951.
United Kingdom	25	27	May 1951.
Latin America:			
Argentina [3]	8	19	November 1950.
Brazil	33	40	April 1951.
Chile	19	28	February 1951.
Costa Rica	11	12	May 1951.
Cuba [4]	12	18	February 1951.
Dominican Republic	13	14	May 1951.
El Salvador	6	12	December 1950
Guatemala	6	7	May 1951.
Mexico	30	33	Do.
Nicaragua	15	30	December 1950
Peru	22	24	May 1951.
Venezuela	7	8	Do.
Pacific and Far East:			
Australia	23	31	March 1951.
India	15	16	May 1951.
Indochina	22	26	April 1951.
Japan	51	61	Do.
New Zealand	3	6	December 1950.
Philippines	23	25	May 1951.
Thailand	8	11	March 1951.
Other:			
Canada	15	16	May 1951.
Finland	42	46	Do.

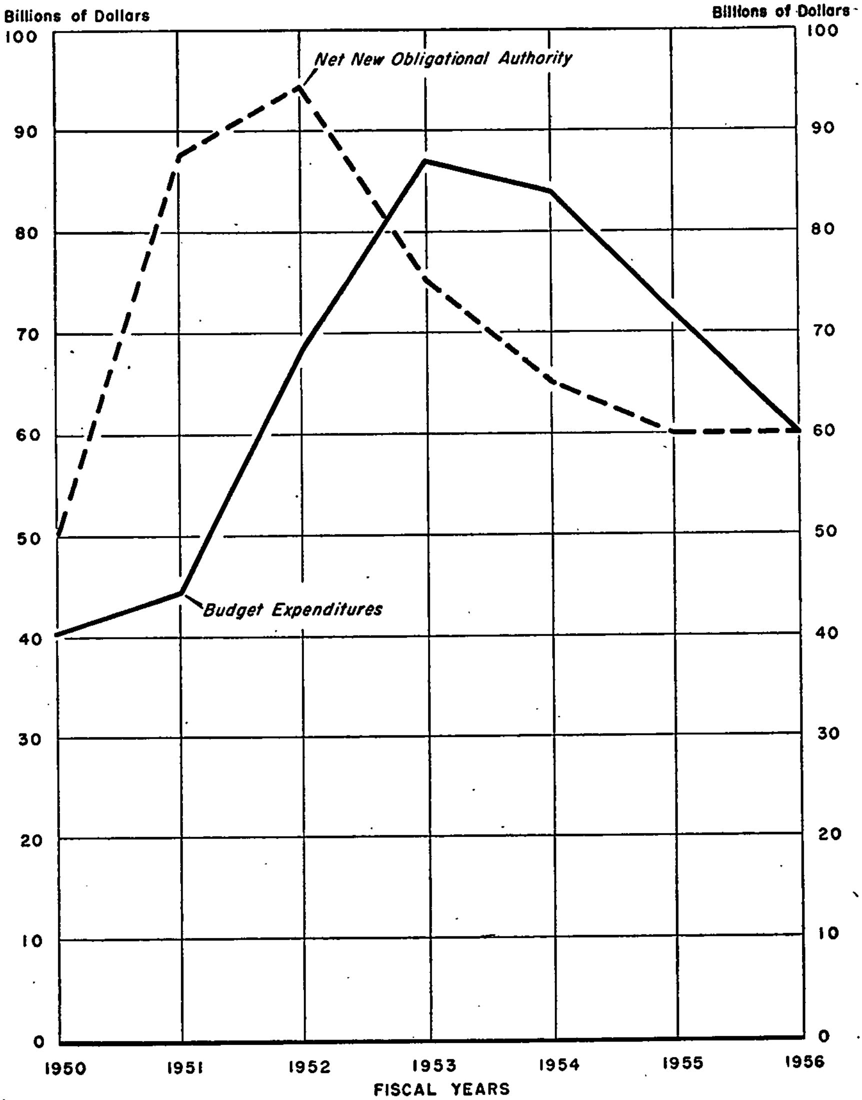
[1] Covers basic materials only.
[2] Covers producers' prices of industrial products.
[3] Cost-of-living figures.
[4] Retail food figures.

NOTE.—For many countries, figures are for capital or principal city only.
Source: International Monetary Fund and United States Economic Cooperation Administration, as shown in table B-27, Mid-Year Economic Report of the President, July 23, 1951, p. 251.

Chart 1.

FEDERAL ADMINISTRATIVE BUDGET EXPENDITURES AND NET NEW OBLIGATIONAL AUTHORITY

ACTUAL FISCAL YEARS 1950 AND 1951; ESTIMATED, 1952–56

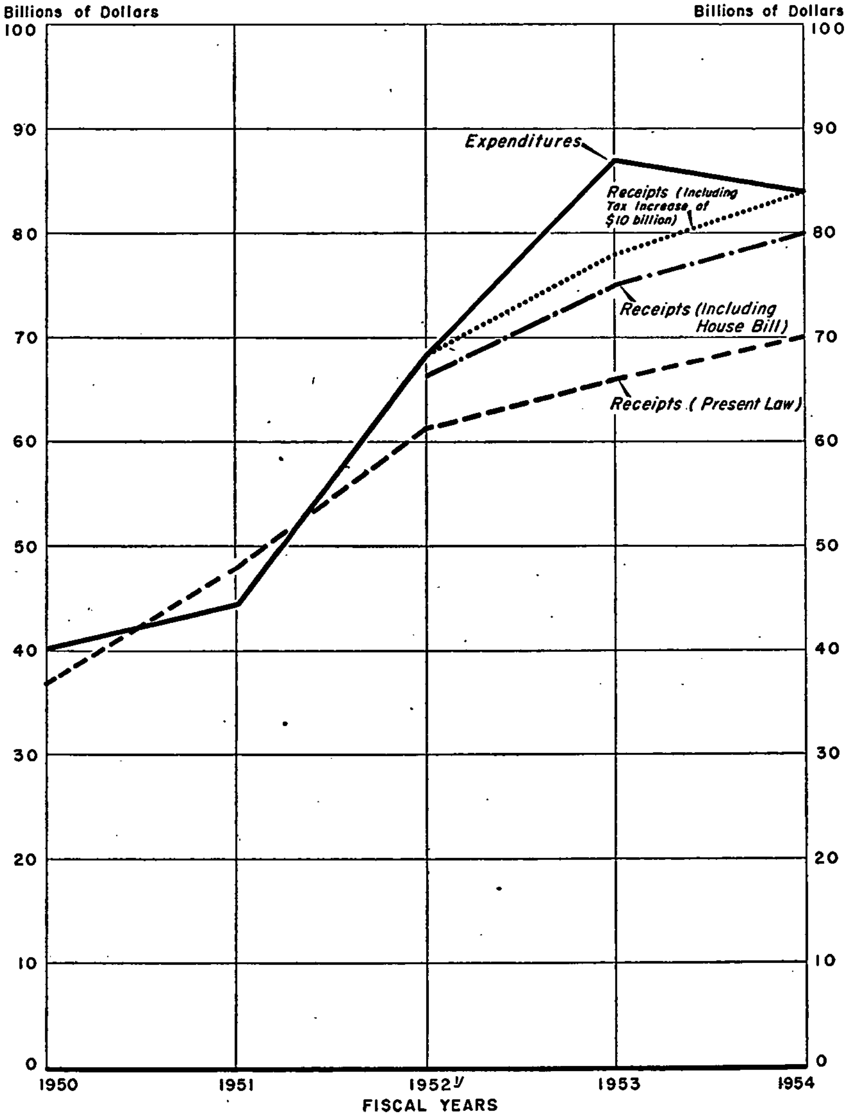


SOURCE: Staff, Joint Committee on the Economic Report

Chart 2.

FEDERAL ADMINISTRATIVE BUDGET EXPENDITURES AND RECEIPTS

ACTUAL FISCAL YEARS 1950 AND 1951; ESTIMATED, 1952–54



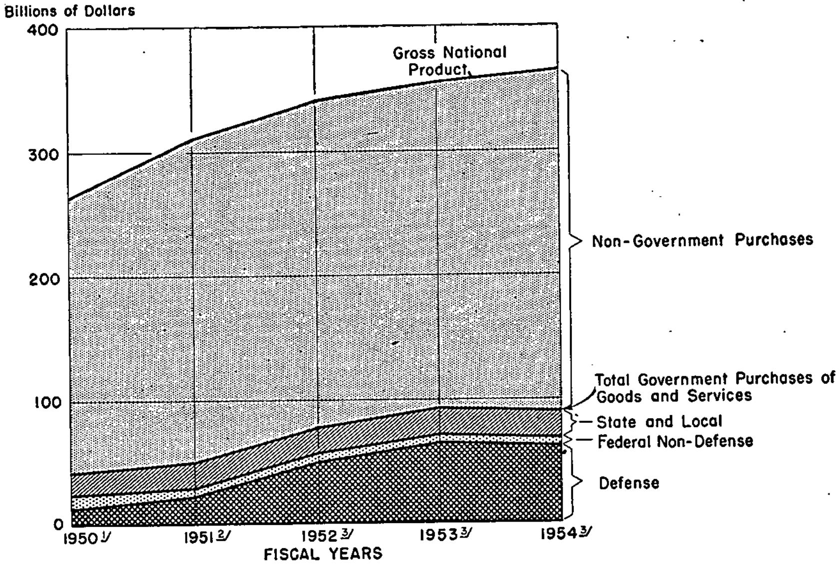
[1] *Assumes personal income of $262 billion and corporate profits before taxes of $43 billion for fiscal 1952*

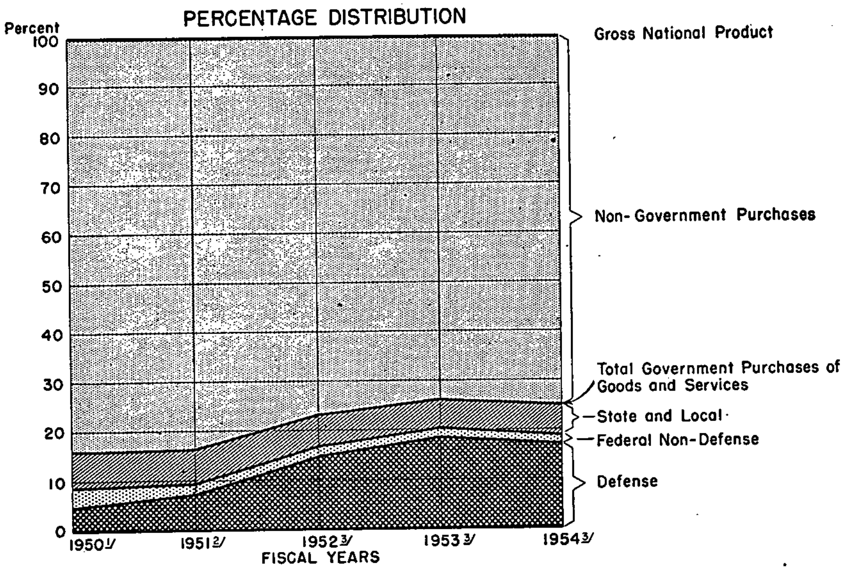
SOURCE: Staff, Joint Committee on the Economic Report

Chart 3

GOVERNMENT EXPENDITURES IN RELATION TO GROSS NATIONAL PRODUCT

ACTUAL FISCAL YEARS 1950 AND 1951; ESTIMATED, 1952–54.





1/ Prices at the average of 1950 fiscal year
2/ Prices at the average of 1951 fiscal year
3/ Prices at the average of the three months, April–June, 1951

SOURCE: Staff, Joint Committee on the Economic Report

Appendix B

EXCERPTS FROM OFFICIAL STATEMENTS ON THE DEFENSE PROGRAM AND ON THE ECONOMIC OUTLOOK

As pointed out in the letter of transmittal from the staff director to the chairman, this report assumes "that the defense build-up will proceed as currently scheduled or as the staff is able to interpret that schedule." Detailed coordinated estimates are not publicly available, so that the staff has had to depend largely on such fragmentary projections as have appeared in several recent official statements. As pointed out also in the letter of transmittal from the staff director, the staff has had the help and cooperation of technicians in the executive agencies and others outside of the Government. The principal program projections in four key statements are quoted below for the use of readers of this report.

Excerpts From Second Quarterly Report to the President by the Director of Defense Mobilization, July 1, 1951

During the next 2 years, we hope to achieve further increases of 12 to 15 percent in industrial production and 10 to 12 percent in the gross national product (p. 11).

The tightening of the labor market has appeared already, with defense production still far below its peak. During the rest of this year, 2 million persons need to be added to defense production, and during 1952 another 2.5 million will be needed. The additions are those required both in munitions industries and in the basic industries which support munitions production, such as mining, agriculture, transportation, and steel.

A large proportion of the needed workers will be transferred automatically on their jobs as the output of plants is redirected from civilian to defense uses. "Normal" growth of the labor force, resulting mainly from population increase and the postwar uptrend in the employment of women, should provide a net inflow of close to 1 million a year. The net requirement of "extra" workers will be about 1 to 1.5 million (p. 27).

Our plans call for an increase for national security from the present rate of about $35 billion a year to an annual rate of more than $65 billion a year from now (p. 33).

Nevertheless an increase of more than $30 billion in national-security activities would produce an inflationary gap of $10 billion to $20 billion (p. 33).

Excerpts From Statement by Assistant Secretary of Defense W. J. McNeil Before the Senate Finance Committee, July 3, 1951

The Department of Defense, during the fiscal year that closed last Saturday, spent from military appropriations—that is, withdrew funds from the Treasury—in the amount of $19,209,000,000.

Assuming a world situation which would permit the continuance, for fiscal year 1952, of the currently approved 3.5-million-man force, and a reasonably level price structure, it is estimated that such a force, together with the procurement of military equipment and supplies, will result in expenditures in fiscal year 1952, from military appropriations to the Department of Defense, of approximately $40 billion.

The rate of expenditure at the beginning of the current fiscal year in $2.4 billion per month, of which about $1.2 billion is for hard-goods items and construction. (This figure for hard-goods items and construction compares with $400 million for such purposes in July 1950.)

The monthly expenditure rate is expected to rise throughout the year, as indicated by the chart submitted to the committee. In June 1952—the end of the fiscal year which is just beginning—the monthly expenditure rate is estimated at $4.3 billion, of which over $3 billion is expected to go for hard-goods items and public-works construction. This monthly rate of $4.3 billion would be equivalent to an annual rate of $52 billion.

Under present schedules the last part of fiscal year 1952 and the first part of fiscal year 1953 would represent generally the period of highest expenditures, aircraft production being the only major program in which a subsequent increased rate of deliveries is anticipated * * *. As a result, expenditures from military appropriations for the fiscal year 1953 may well be in the $48-billion to $50-billion range.

Beyond 1953 it is probable that expenditures could drop toward a $35-billion annual rate with actual expenditures during the fiscal year 1954 being in the neighborhood of $40 billion. Such estimates must assume, of course, continuation of the same factors into fiscal year 1953 and 1954 that earlier were stated as applying to the estimates for fiscal year 1952.

* * * Expenditures of approximately $4 billion are anticipated for military assistance during fiscal year 1952.

In summary, for the fiscal year 1952, expenditures by the Department of Defense for its military functions and for military aid are estimated to total approximately $44 billion.

Excerpts From Statement of Elmer B. Staats, Assistant Director of the Bureau of the Budget, Before the Senate Finance Committee, June 29, 1951

* * * The President's budget originally estimated expenditures at $71.6 billion. The budget at that time, however, included no detailed estimates for approximately two-thirds of its total. * * *

* * * [changes made since January result in] a net reduction of slightly more than $3 billion. Budget expenditures are now estimated at $68.4 billion.

Thus, in a 3-year period, from 1950 to 1952, new obligational authority of about $225 billion will be granted if these requests are enacted, whereas expenditures will total about $150 billion. On this basis, it can be seen that the Federal Government will enter the fiscal year 1953, 1 year from now, with a carry-over of around $75 billion in authorizations for these 3 years still available for expenditures. This does not take into account any 1953 appropriation requests. Contracts will have been entered into and goods ordered for virtually all of this amount, but actual delivery and payment will not be made until 1953 or beyond.

* * * During the last quarter of the current fiscal year, our military expenditures, including military and items shipped to our allies, are running at an annual rate of around $28.8 billion. It is now estimated that in the last quarter of 1952 these expenditures will be at an annual rate of over $52 billion. This rate will continue to rise through the fiscal year 1953.

As a result of this increasing rate, direct military expenditures, including military assistance to our allies, can be expected to total between $55 billion and $65 billion in 1953, as compared with about $42 billion in 1952. In addition, other national-security programs such as stockpiling, atomic energy, defense production, and economic stabilization and maritime activities may amount to another $5 billion in 1953. Other Government programs, which include veterans' benefits and interest on the public debt, even if held below their present level, will amount to almost $20 billion.

Thus, it may be assumed at this time that budget expenditures for 1953 may total between $80 and $90 billion.

Under present projections of the build-up of our military readiness, Federal expenditures for national-security programs will probably reach a peak late in the fiscal year 1953, or early in the fiscal year 1954. The peak in military production and deliveries of military equipment, of course, will come before the peak in budget expenditures.

After our military readiness objective has been achieved, the level of expenditures for the military functions of the Defense Department under present assumptions of strength are likely to be sustained at a level of $40 billion per year. Approximately half of this amount is necessary merely to support a standing armed force of 3.5 million men. It includes pay, food, clothing, housing, and similar support for the maintenance of men and women in uniform.

Excerpts From the Economic Situation at Midyear 1951 by the Council of Economic Advisers, July 20, 1951

Over the whole first half of this year, the total gross national product was at an average annual rate of $324 billion. In terms of first half of 1951 prices, the annual rate of gross national product at midyear 1951 was in the neighborhood of 330 billion dollars, or about 10 percent above the level of a year ago. Measured in terms of this same price level, it now appears that we should be able to increase total output by 5 percent or more during the coming 12 months, bringing the gross national product to an annual rate of over 345 billion dollars by the middle of 1952. Over the following year, the opportunities for further growth will probably diminish somewhat as resources are brought into still fuller use. But it should be feasible also to realize during that period a further increase of at least 4 percent in total output. Thus, over the next 2 years, we should be able to increase total output at least twice as fast as we did during the period from 1946 through the first half of 1950 (p. 60).

* * * The scheduled increase in security programs, as described earlier, would raise total Government expenditures by about 28 billion dollars from the first half of 1951 to the first half of 1952. Even if we are successful in expanding total output by 5 percent or more, there still would have to occur a reduction in output available for nonsecurity purposes. If the increase were 5 percent, the contraction would have to be ten to fifteen billion dollars (p. 67).

* * * During the first half of 1951, this total was at an annual rate of 62 billion dollars, and will probably be reduced by something in the neighborhood of 15 billion dollars by the first half of 1952 (p. 67).

* * * Consumption may decline as a proportion of the total national output from 69 percent in the first half of 1950 to about 64 percent in the first half of 1951, and about 62 percent in the first half of 1952 (p. 68).

To meet the national-security objectives, it is essential that the goals outlined in part II of this report be attained, and that economic programs and policies be shaped to this purpose. These goals may be summarized as follows:

1. An increase in total output of 5 percent, or better, from the middle of 1951 to the middle of 1952.
2. An increase of something like 4 percent in total man-hours of work over this period. Most of this increase should result from expansion of the labor force by 1½ to 2 million. Some lengthening of the workweek will be necessary in some industries. Increased labor productivity should make an additional contribution of some 2 percent to expansion of total output.
3. Expansion of productive capacity in such basic industries as iron and steel, aluminum, chemicals, fuels, energy, and transportation facilities, requiring outlays of 20 to 30 billion dollars during the next 2 years. In addition, expansion of specialized facilities for military production will come to about 7 billion dollars.
4. Effective development and utilization of foreign as well as domestic resources of basic raw materials, and their allocation in line with comparative urgency of demand.
5. Restrictions on many types of consumption, business investment, and Government spending (pp. 99 and 100).

* * * Taking all of these components together, it is a reasonable though very rough estimate that, if defense schedules and essential business investment needs are met, the total of personal incomes may expand by 15 to 20 billion dollars (annual rate) between now and the middle of next year. Over a sweep of time as long as a year, regardless of variations from quarter to quarter, it seems extremely likely that such an increase in personal incomes distributed broadly among almost all income groups would translate itself into a desire in the aggregate to spend more money. Even if one-third of the additional income went into taxes and savings and only two-thirds were translated into efforts to spend it, there would be an increase in consumers' ability and desire to spend by about 10 to 15 billion dollars.

The three main factors of demand which have just been listed must now be measured against the realistic estimate of a possible increase in total production of 5 percent or better during the next 12 months. Such an increase in total production, which would amount to about 15 billion dollars, compares with a projected increase in security programs of 30 billion dollars (pp. 124, 125).

With present taxes and the scheduled increases in expenditures, it is estimated that the deficit will rise to an annual rate (seasonally adjusted) in excess of 15 billion dollars by the end of the current fiscal year, compared with about a 2-billion-dollar rate in the quarter just closed. This estimate makes liberal allowance for the effect of increasing national income on tax revenues. With Federal expenditures for the fiscal year 1953 expected to total between 80 and 90 billion dollars compared with the fiscal 1952 estimate of 68 billion, an even larger deficit rate is indicated for that year (p. 129).

O