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SENATE

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JOINT ECONOMIC REPORT

REPORT

OF THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

ON THE

JANUARY 1952 ECONOMIC REPORT OF THE PRESIDENT

WITH

SUPPLEMENTAL AND MINORITY VIEWS

AND

MATERIALS PREPARED BY THE STAFF

ON

NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK FOR THE FISCAL YEAR 1953

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JOINT COMMITTEE ON THE ECONOMIC REPORT

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REPORT OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT

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

REPORT

[TOGETHER WITH SUPPLEMENTAL AND MINORITY VIEWS]

The Employment Act of 1946 imposes upon the President of the United States the responsibility for transmitting to the Congress a comprehensive economic program for carrying out the policies of the Government, together with such recommendations for legislation as he may deem necessary and desirable.

By the very nature of the legislative process, it is difficult for Congress to consider and act on the many parts of a comprehensive program so that at the end of each session they will fit into a coordinated whole. The responsibility for doing so, or not doing so, however, cannot be avoided by the Congress. When the Congress rejects or alters a specific proposal, making up a part of an already integrated program, it is incumbent upon the Congress to adjust the remainder of its program to fit the altered pattern. The committee and Congress must approach the analysis of the President's Economic Report with this thought clearly in mind.

Reduced to simplest terms, the Economic Report of the President together with the budget for fiscal year 1953, as interpreted by the state of the Union message, present for the consideration of the Congress an economic program based upon the assumption that World War III can be avoided, and that the United States need not now proceed to full mobilization but may prolong the program for the military build-up over a period of 2 or 3 years. This assumption will reduce military expenditures for fiscal 1953 and 1954 below what otherwise would be required to enable this country to arm both itself and the free nations in a manner sufficient, in the judgment of the Nation's military advisers, to meet an immediate attack by Soviet Russia.

The preparedness program, with its requests for new obligational authority and its estimates of expenditures, though far short of what the armed services desire, and below what was originally thought necessary for mutual security, is nevertheless so expensive that it cannot be financed within the limits of the revenues estimated to be derived from present tax laws. Assuming these expenditures to be necessary, a pay-as-we-go program would require an increase in taxes greater than that recommended by the President. There being no possibility that this Congress will increase taxes as requested, the pay-as-we-go anti-inflationary program can be preserved only by a sufficient reduction of expenditures to eliminate the cash deficit. A reduction of approximately $10 billion would seem to be necessary to accomplish this purpose.

The problem is to find the places where such reductions can be made without injury to defense or impairment of the civilian economy and to take the courageous congressional action necessary to make the cuts which would be warranted.

True economy calls for a new birth of self-restraint in Congress, as well as in the executive departments. The committee would be delinquent if it did not point out that some of the most extravagant expenditures in recent years have been the result of congressional decisions. Many of these have been opposed by the President and various executive officials.

Unfortunately, Federal expenditures which have no direct war connection cannot be reduced in sufficient amount to prevent the estimated cash deficit, not because such expenditures are free from all possibility of waste or extravagance but because all of these items taken together would amount to only $9.9 billion, or 11.6 percent, of the total budget. (See Staff Materials, Table VI, p. 55.) Manifestly, it would be impossible to eliminate all or even most of these expenditures, for in the main, they provide the essential peacetime functions of Government.

Of the total expenditures estimated for fiscal 1953 amounting to $85.4 billion, almost one-half, or $41.9 billion, are to pay bills for outlays authorized in previous years, the settlement of which cannot be made until fiscal 1953. Other items which can hardly be reduced in the next year include those payments which the Government must make because of legal or other implied commitments. Among these are: Interest on the national debt; grants-in-aid to the States for which provision is made in existing law, and veterans' payments and benefits which are determined in any one year solely by the number of persons qualifying for the payments (including pensions) multiplied by the rate of payment prescribed in existing law. Commitments of this character are estimated in the budget to amount to $14.4 billion. However, in addition to major national security expenditures included in the $41.9 billion carry-over mentioned above, further 1953 expenditures of $24.2 billion are estimated to be made for the military services and foreign aid programs out of the new 1953 authorizations requested by the President.

The sum of these three items—$41.9 billion, $14.4 billion, and $24.2 billion—is $80.5 billion. This leaves only $4.9 billion to cover all the non-war-connected expenditures supposedly controllable by the Congress for the fiscal year 1953. (See letter and tables from Budget Director Frederick J. Lawton, Hearings, pp. 467–487.)

To save the pay-as-we-go system for fiscal 1953—and the committee believes it should be saved—it is thus obvious that the Congress would have to cut most of the needed $10 billion from the major national security program or from the non-war-connected expenditures authorized by law which only the Congress, and not the President, can repeal or modify.

To accomplish such a reduction, the Congress must necessarily scrutinize every dollar of military expenditure, first, by establishing controls to prevent waste and extravagance and, second, by the most careful review of military programs to be certain that the expenditure projects which are undertaken are being justified by the scientific, technological, and military facts of 1953 rather than by traditional concepts and conventional methods inherited from past wars.

Various appropriation acts in recent years have carried specific clauses designed to foster economy. For example, the current appropriation of the Department of Defense contains provisions requiring the insertion of a cancellation clause in procurement contracts, the cancellation to become effective upon a showing that gratuities were offered or given to officers or employees of the Government to secure the contract or favorable treatment thereunder. Other appropriation acts have had provision calling for strict austerity in the construction of particular projects. The committee believes that provisions such as these should be extended to all procurement or construction contracts.

The committee also suggests that the appropriate legislative committees look into the possible efficiencies and economies which might be achieved by placing the procurement of military items in the hands of a trained civilian force. As a corollary it might prove desirable to establish a corps of civilian reviewers to examine military specifications with a view to substituting less critical and less expensive materials where possible, and to set quality standards which would permit savings without the sacrifice of service.

The Congress must also review existing laws which authorize expenditures, for these will continue to be made unless the Congress chooses to modify or repeal such authorizations. Into this category fall programs which, under existing law, are not subject to annual congressional appropriation control. For example, the Export-Import Bank is permitted to have outstanding loans and guaranties not exceeding $4.5 billion at any one time. As long as the bank operates within this limit, annual appropriations are not needed. Loans to public agencies by the Reconstruction Finance Corporation, mainly to meet commitments made in the past, catastrophe loans, expenditures by the Federal National Mortgage Association, and other similar programs, all of which have been prescribed by law, also are actually not dependent on annual appropriations. (See letter and tables from Budget Director Lawton, Hearings, pp. 467–487.)

The Federal National Mortgage Association well illustrates why it is so difficult to reduce Government expenditures. The Association, permitted to have outstanding not more than $2,750 million of loans and commitments at any one time, is now rapidly approaching that limit and will very soon be unable to make any further commitments. The secondary mortgage market, which the Association was established to provide, might quite satisfactorily be taken care of by private banking institutions. In spite of this, it is not improbable that some of the very persons who advocate limiting Government expenditures in general will soon be calling upon Congress for an increase in the Association's authorized loan limit in order that the Government agency may continue to provide this secondary market for mortgages which private capital fails to provide.

Then there are expenditures in the form of grants-in-aid, shared revenues, and loans and advances to States under existing legislation. These, too, are difficult to reduce. For example, through the operation of the Federal Security Agency the Federal Government reimburses the States in accordance with a formula written into the law by the Congress for public assistance. The estimate this year for this purpose if $1,140 million. Nearly 50 other programs aggregating at least $1,470 million are similarly in the category of cooperation with the States and are relatively uncontrollable through the annual appropriation process in any one year. (See letter and tables from Budget Director Lawton, Hearings, pp. 467–487.)

Cuts in these and similar fields can be made only by modification of existing laws or by the refusal of Congress to appropriate the funds necessary to meet legal commitments. When all of these items are taken into consideration, however, in aggregate they do not amount to a sum sufficient to eliminate the anticipated cash deficit.

Therefore if Congress desires to balance the cash budget by reducing expenses it must turn to the national security expenditures. When, in the course of the committee hearings, the Director of Defense Mobilization, Charles E. Wilson, was asked whether he would choose to reduce mobilization expenditures rather than incur a deficit, his answer was that he would choose to incur the deficit.

The issue which is presented to the Congress, therefore, is whether to abandon the pay-as-we-go policy and, if we do, how to avoid the inflation which, sooner or later, seems inevitable if the policy is abandoned. This is not to say that the economy of the United States cannot carry a deficit for a short period without inflation. But many feel we are not dealing with a short period. Indeed no one can predict how long the preparedness program must be carried. The judgment which the Congress must now make, therefore, may involve military expenditures over an indefinite period in the future.

This brings us face to face with the question as to whether or not in the present cold war—and this is an economic war as well as a shooting war in Korea—the Congress can afford even for a short time to permit deficit spending. The committee believes it is highly dangerous to indulge in this luxury.

The Soviets are acting upon the theory that the capitalistic system can be forced into an economic crash out of which world domination by the Communists will arise without expenditure of Russian manpower and without the risk of Soviet defeat in a third world war.[1] If this be true, the economic front may well turn out to be the most dangerous front. To run a continuing deficit now may well cause

[1] The strategy of the Communists was implied in a recent article, "The Economy of the Capitalist World Under the Burden of Militarism," which appeared in the Moscow journal, *Bolshevik* (No. 24) in December 1951. (*Bolshevik* is an official publication of the Central Committee of the All-Union Communist Party.) It stated:

"The arms race and preparation for a new world war brought about in the year which has passed a sharp lowering in the standard of living of the working people in the capitalist countries, a rise in price of goods of general consumption, an increase in the burden of taxation, and a rise in inflation. At the same time, the monopolies are making profits on the preparation for war and are plundering colossal profits from the working people. The masses of the people are stiffening their resistance to the militarization of the economy of the capitalist countries.

"Militarization, the policy of the preparation of new military adventures, are increasingly undermining the economy of the capitalist countries. All the internal and external contradictions in the camp of imperialism are growing sharper. The disproportionate extension of the war industry, and also of the branches serving this industry at the cost of the curtailment of the production of consumer goods cannot but lead within a short time to an economic crash."

this country to fall into the economic trap anticipated for us by the Kremlin.

The dilemma which the Congress faces was well stated by Secretary of Defense Robert A. Lovett in his opening public statement at a joint hearing of this committee and the Senate Appropriations Subcommittee on Defense. He testified:

> I would like to emphasize that the problem confronting this committee, the Congress, and the Department of Defense is to complete a military program within the framework of the partial mobilization concept while at the same time maintaining a strong civilian economy. It has never before been attempted in this country.

In the same statement Secretary Lovett testified:

> We have tried to bear in mind that in preparation against the dangers of a hot war, we must not be trapped by our own efforts into losing the cold one.

Thus Congress faces the months immediately ahead under the necessity of reaching a practical judgment as to the proper balance between immediate military strength and longer-run economic strength. To this end, three possible programs present themselves:

First—and this is the program submitted to the Congress by the President—accept a military build-up entailing $85 billion total Federal expenditures for fiscal 1953, raise approximately $5 billion of additional Federal tax revenue, and tighten the direct control program.

Second, reduce Federal Government expenditures—which means mainly defense expenditures—while retaining present tax rates and direct control laws.

Third, accept the proposed level of expenditures without raising taxes and—to offset the risk of inflation—rely primarily upon individuals and business to restrict private spending and to save at an unusually high rate.

CONGRESSIONAL CONTROL OF EXPENDITURES

The key factor shaping the national economy is the defense program. Of the President's $85 billion expenditure estimate for fiscal 1953, $65 billion is for major security programs. Thus sizable reductions in the Federal budget for fiscal 1953 can be achieved only by substantial cut-backs in the national security appropriations.

The military build-up program is recommended by the President as a middle choice. Too slow a build-up would invite open aggression by the Communists; too rapid a build-up "could burden us with a mass of out-of-date weapons, deplete our economy, and weaken public support for a program which may be needed over a long period." [2]

Secretary Lovett testified that the three armed services made original requests for appropriations for fiscal 1953 totaling $71 billion; that these were reduced by the Department of Defense to $55 billion; and thereafter reduced an additional $3 billion by the President and the Bureau of the Budget.

It is not the function of the Joint Economic Committee to say whether the President's program from a military standpoint is too large or too small, too fast or too slow. However, the evidence before

[2] *The Economic Report of the President, January 1952*, p. 4.

this committee indicates that the program as outlined by the President, if essential from a security standpoint, can, for the short run, be supported by the economy. It does not follow that expenditures can be supported indefinitely at the proposed fiscal 1953 level.

In economic terms, the burden of defense expenditures will fall upon the American people at the time the expenditures are made. The burden can be shared equitably only by an effective anti-inflationary program. It is shared inequitably through inflation. The over-all burden can be lightened, and inflationary pressures eased, by a reduction and postponement of Government expenditures whenever this can be done without jeopardizing the national security or the strength of the economy.

Annual, or short-run, control over the rate of expenditures has been placed by the Congress largely in the hands of the executive branch through the granting of obligational authority in excess of amounts actually spent in a given year. The lead time required for major military items necessitates large appropriations well in advance of actual delivery and payment. It appears not to be generally understood that the building of an aircraft carrier, of a long-range bomber, or of the plants required to turn out modern weapons, is as expensive in time and money as the building of a skyscraper. This explains why about $73 billion of previous appropriations will be brought forward into the fiscal year 1953, most all of which are expected to be for major national security programs. (See Hearings, p. 92.) Thus, even drastic reductions in new appropriation requests for fiscal 1953 would have less than dollar-for-dollar effect on total 1953 expenditures.

Congressional control of Federal expenditures is one of the rocks on which our system was founded but it has been difficult to maintain. As long ago as 1921, after many abortive attempts, the Congress finally enacted the Budget and Accounting Act of 1921. This law created the General Accounting Office to be "independent of the executive departments and under the control and direction of the Comptroller General of the United States." Its audits have saved uncounted millions, but only as an accounting process. There is now pending on the calendar of the Senate a bill (S. 913) reported by the Committee on Government Operations, to amend the Legislative Reorganization Act of 1946 to provide for more effective evaluation of the fiscal requirements of the executive agencies of the Government of the United States. It is designed to create a Joint Committee on the Budget with an expert joint staff for the Senate and the House to maintain continuous surveillance of Government expenditures, thus increasing effective congressional control over the rate and efficiency of expenditures. In setting up such a committee and staff, care should be taken to delimit clearly the jurisdiction of this and other committees of the Congress.

If congressional control of expenditures is to be made effective, it would seem to be necessary for the Congress either to enact new legislation of the kind recommended by the Senate Committee on Government Operations or to amend the Budget and Accounting Act to make better utilization of the services of the independent General Accounting Office. Members of Congress well know, however, that the reports of the General Accounting Office are honored more in neglect than in study, and that the expansion of congressional staffs could easily lead merely to the establishment of a legislative bureaucracy to watch executive bureaus.

In the adoption of the Hoover Commission recommendations for a "performance budget" the Government has made important forward strides in placing budgetary procedures on a more businesslike basis. But further improvements are needed both in the structure of the budget message itself and in congressional handling of the budget.

First of all, the budget message does not, as yet, clearly and explicitly make the distinction between the "cash budget" and the "administrative budget," a distinction which this committee has been consistently developing for quite some time. The pioneering work which has been done by our committee and which is supported by such business organizations as the Committee for Economic Development, can be used as a model for the development of an improved budget presentation. In every annual budget message, the distinction between the "cash budget" and the "administrative budget" should be made in simple understandable terms.

Similarly, the budget message should give more explicit attention to the distinction between the money which goes for operating expenditures and the money which goes for recoverable loans and physical assets. This is one of the most important proposals of the Hoover Commission. Favorable action should be taken on it by the Bureau of the Budget.

It would also be helpful if the budget message included special sections aimed at telling where we are headed on expenditures over subsequent fiscal years, that is, spell out the financial commitments implied for future years under existing and proposed legislation. Although the Government is today making commitments which call for expenditures many years in advance, no one can obtain from the budget message information concerning these future expenditure implications.

All these specific questions—as well as more controversial proposals for a carefully planned congressional schedule on appropriation measures, for "yea" and "nay" votes, for more record votes on appropriation items, and for the presidential item veto—are contained in the proposed Economy Act of 1952. Such proposals seem to us to warrant prompt and careful study by the committees to which they have been referred.

Whatever may be done about the reappraisal of present or proposed devices for strengthening congressional control of expenditures, results in the long run will be shaped by what Congress, itself, determines with respect to the programs and policies it directs the executive branch to execute. Reductions in expenditures resulting from continued congressional review of these programs should follow sound principles. Some of these, described in greater detail in the Staff Materials (pp. 80–82), would: (1) Put direct governmental services wherever possible on a self-supporting fee basis when the beneficiary of the services can be identified more or less precisely; (2) avoid increases in Government expenditures in directions in which private enterprise may render the services equally well with no more than Government-enabling legislation; (3) keep assistance grants to the States for public aid, highways, and the like from becoming so rigid or bound by legislation that they can be varied only by progressive changes upward, regardless of economic conditions or needs; (4) tie, wherever possible, desirable and necessary new demands for expenditures to reductions or shifting of costs from some other program; and

(5) avoid originating new programs which will mature into commitments for increased expenditures in future fiscal years.

This committee directed the staff a year ago to assemble various specific suggestions for changes in basic statutory programs which would result in economies.[3] The committee, of course, has taken no position with respect to any one of these possible changes in legislation. The Budget Director stated at the committee's recent hearings, however, that this "is still primarily a good list." The list is referred to here to emphasize again to the various legislative committees the kind of changes in basic legislation that could effect a reduction in Federal expenditures.

SHOULD TAXES BE INCREASED?

Setting aside for the moment the realistic judgment expressed above that the present tax rates will not be increased, the President's tax recommendation must be judged in the light (1) of the probable anti-inflationary or inflationary effects of a further tax increase, and (2) of the size, duration, and inflationary impact of the prospective deficit.

There appears some upper economic limit to taxes, although not an inflexible percentage of the Nation's income, but an area beyond which further tax increases would aggravate inflation and reduce initiative and output. Some may believe this limit has been reached.

Much evidence was presented to the committee indicating that the United States has not yet reached the economic limit beyond which an increase in carefully distributed taxes would necessarily prove inflationary. The committee concurs with this view, although it is concerned both with the burdens already being borne by low-income families and with the adverse effects on incentives and deterrents to venture capital in the high-income brackets. Not only are low-income families least able to defend themselves against the ravages of inflation but they are now paying taxes out of sums which should be spent on basic necessities of life. Families with incomes below $3,000 a year cannot now be expected to pay higher taxes. On the other hand, simple rate increases on incomes of families earning more than $10,000 would not produce significant additional revenue, and, in combination with high corporate taxes, might impair initiative, productivity, and incentives to investment in new and risky enterprises.[4]

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[3] *Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President* (Rept. No. 210), 82d Cong., 1st sess., pp. 86–95.

[4] "I would like to illustrate this point. Under individual tax rates now in effect, the complete confiscation of all income, after present taxes, remaining to persons in gross income classes over $25,000 would be called for in order to raise an additional $10 billion or the amount of the estimated cash deficit for 1953. Complete confiscation of all income, after present taxes, now remaining in the hands of persons receiving over $100,000 would yield only $1.7 billion. (See Senate Finance Committee Revenue Act of 1951, Rept. No. 781, p. 12.) Under the present system of tax exemptions and deductions much less revenue could be obtained by complete confiscation of all surtax net income (i. e., income actually subject to tax) in the higher brackets. Complete confiscation of surtax net income in all surtax net income brackets above $4,000 would yield only an additional $9 billion or less than the estimated cash deficit for fiscal year 1953.

"With further reference to the dangers of higher taxation in the upper brackets, I would like to call attention to the lack of profit in making risk investments. For example: If a man in the $50,000 bracket puts money into risk investment which is successful and yields as much as 10 percent on the investment, the Government will take half of that, in the form of corporation income taxes, leaving 5 percent tax free. It would be unwise for the business to pay out more than half of that in dividends. The investor therefore might receive 2½ percent on his investment but, since this is an addition to his top bracket, the Government will take 75 percent of this, leaving him only five-eighths of 1 percent as a return for his investment in the future of the country. He would not be justified in making such an investment and will naturally prefer tax-free State and municipal bonds yielding a clear 2½ percent."—Senator Ralph E. Flanders.

We recommend tightening tax administration and the elimination of loopholes. Such steps will provide moderate amounts of additional revenue. We do not recommend a general increase in tax rates at this time because we believe that even if the reductions in expenditure discussed above are insufficient to balance the cash budget for fiscal 1953, the temporary cash deficit can be held to an amount (through expenditure reduction in subsequent years and through tax code tightening) where its inflationary aspects can be controlled by other programs.

CAN WE RELY ON CONSUMER SAVINGS AND ECONOMY IN PRIVATE EXPENDITURES TO PREVENT INFLATION?

While every effort must be made to reduce inflationary pressures through economies in Government expenditures, nevertheless, primary control over inflation lies with private business and consumers. In calendar 1951, out of total expenditures for gross national product of $327.8 billion, about $205.5 billion, or 62.7 percent, was spent by consumers, and $59.1 billion, or 18 percent, by private business for investment. Important as it is that Government—Federal, State, and local—should economize, inflation can be controlled only if business and consumers practice economy in expenditure in the same manner that is expected of Government. It should be remembered that it was the temporary scare buying of consumers and inventory speculation by private business that bid up prices immediately after the outbreak of the Korean war. Furthermore, the private inflationary pressures were aggravated and made possible by a sizable increase in bank credit. (See Staff Materials, pp. 85–88.) Striking price rises occurred during fiscal 1951 despite the fact that the Government was achieving a substantial cash surplus.

Since about 75 percent of all expenditures for gross national product in fiscal 1952 will be made by private individuals and groups, the course of prices during the next fiscal year will be largely determined by the extent to which consumers and business voluntarily economize on less essential and postponable expenditures, and on the effectiveness of voluntary, as well as compulsory, restraints on private credit.

Consumers in recent months contributed to economic stability by saving at a rate of approximately 9 percent of their income after taxes. This was the highest rate since the end of World War II. There is no certainty as to how long consumers will be willing to continue their voluntary restraint and to save large portions of their disposable income. Public confidence in the outlook is paramount. A change in psychology could turn liquid savings into inflationary demand overnight. In any event, it must be acknowledged that consumer savings during the last 9 months of calendar 1951 constituted a powerful anti-inflationary force.

If the Nation is to rely primarily on high levels of voluntary consumer savings and economical private spending to prevent inflation, the Government's direct control program becomes particularly important. Furthermore, every practicable method for encouraging new savings, for retaining old savings, and for encouraging postponement of less essential business investment, must be explored. The Subcommittee on General Credit Control and Debt Management of this committee will consider such devices.

AFTER THE DEFENSE BUILD-UP, WHAT?

According to present announced schedules and assumptions that there will be no worsening in international conditions, defense build-up expenditures should have passed their peak within the next 2 years. Defense spending—it is assumed—should then decline toward a level required to maintain our military forces at top efficiency. (See Staff Materials, Table VIII, p. 59.) Admittedly there are no certain and unequivocal answers as to what this level may be. Nevertheless, this committee recommends that a study be made of the likely maintenance cost of the defense program in terms of manpower, materials, and dollars.

The long-run maintenance-cost problem is tied directly to a number of related questions such as the opportunities for growth and development in the economy once the defense build-up is completed. The committee has directed its staff to assemble materials on the opportunities to which the Nation can devote itself more fully when the defense build-up has passed. The staff will give particular attention to needed policies which will facilitate action by business and consumers to maintain dynamic growth in the economy.

SUMMARY OF RECOMMENDED COURSE OF ACTION

In the preceding pages the committee has pointed out the desirability of balancing the cash budget and continuing the pay-as-we-go program. The committee recognizes, however, that it is unrealistic to expect public support at this time for an increase in tax revenues either through the closing of all so-called loopholes or through increasing tax rates. Furthermore, while the members of the committee individually support many specific proposals to reduce expenditures we believe that it is unrealistic to expect that a majority of the Congress will support enough of these this session to balance the cash budget for fiscal year 1953 by expenditure reductions.

One example will illustrate the point. An obvious and equitable way to reduce the expected deficit would be to put the Post Office Department on a more nearly self-sustaining basis than is indicated by the $800 million deficit expected in the present fiscal year. But the pressures against further increases in postal rates are so strong there is little reason to expect the Congress at this session to enact these increases. It should be noted that the most effective pressures against a postal-rate increase come, as the experience of the last session of Congress demonstrated, from quarters which most loudly demand "economy in Government." A similar situation exists with respect to nearly every other area where economies could be achieved without serious loss to the Nation's strength. Groups with a special interest in particular expenditures are able to concentrate the full weight of their power in support of those expenditures. On the other hand, the great majority of the people are either so disinterested or uninformed individually about the costs of proposed expenditures that, despite an almost universal desire for both economy in Government and lower taxes, expenditures are voted for lack of specific public opposition to particular expenditures.

In spite of these realities the committee recommends to the standing committees of the Congress the following designed to achieve a balanced cash budget in fiscal 1953: (1) That every effort should be made to remove all waste, to postpone less essential expenditures, and to review carefully all basic programs from the standpoint of attaining both immediate and long-run economies; (2) that the appropriate standing committees should continuously scrutinize the problem involved in the fundamental maintenance level of military expenditures; (3) that every avenue should be explored to stimulate savings on the part of individuals; and (4) that inequities in the tax structure should be eliminated and tax administration improved with some revenue gains. We do not recommend a general increase in tax rates at this time. We believe that the cash budget can be balanced in fiscal year 1953 as a result of revenue gains from the above-mentioned measures and reductions in expenditures as previously repeatedly emphasized. A further contributing factor is the likelihood that lags in production of military items will result in lower expenditures than officially estimated.

While the committee feels strongly about the necessity of balancing the cash budget, we must say that if a small cash deficit should develop in spite of the recommended courageous steps, it nonetheless could be managed temporarily for the single year. If international conditions permit, expenditures in the subsequent year must be stabilized and later reduced, permitting tax reduction.

The debt limit of the United States Government is now fixed by law at $275 billion. The committee is strongly of the opinion that any upward adjustment of this limit, short of all-out war, should be avoided. With the debt presently at about $260 billion, the need for rigorous economy is underscored. If nothing is done about expenditures, the estimated deficit for the next fiscal year will bring the debt perilously close to the present maximum.

UNITY ON MAJOR NATIONAL ISSUES

In expressing their views to this committee, representatives of leading farm, labor, business and consumer organizations have shown a wide area of agreement in their basic evaluation of the present economic situation and the major problems facing the Congress. They also agreed in many of their recommendations. (See Hearings, pp. 414–467.)

The primary requirement of adequate national defense is taken for granted by all. The dangers of communism are recognized and the need for substantial military and economic measures to combat the threat of aggression is accepted. It is clear that all groups in the economy expect the necessary military programs to be carried out as efficiently and economically as possible.

The American Federation of Labor, the Farmers Union, and the Committee for Economic Development, among others, pointed out that the struggle against communism is economic as well as military, and that the strengthening of the free world economically must form an important element in our national security program.

Second only to the recognition of the need for adequate defense was the concern over the dangers of inflation. The Chamber of Commerce of the United States, the Congress of Industrial Organizations, and the Consumers' Union stood side by side in their alarm at what further inflationary price rises would mean to the functioning of the American economy.

Particular concern was expressed by most groups over the inflationary dangers of impending Government deficits. Groups as diverse in their economic interests as the American Federation of Labor, the American Farm Bureau Federation, and the National Association of Manufacturers were alike both in their disapproval of deficit financing in these times and in their advocacy of going as far as possible toward balancing Federal receipts and expenditures, without jeopardizing our national defense.

Such agreement upon needed policies gives emphasis to the general unity of purposes and programs so often concealed beneath the diversity of disagreements about particular remedies for special situations. Understandable as it is for each group to be partial to its own immediate interests, all groups evidence a desire to strengthen the economy and to increase the Nation's ability to cope with the threat of Soviet aggression.

VIEWS OF THE COMMITTEE ON THE MAIN LEGISLATIVE RECOMMENDATIONS OF THE PRESIDENT

The Employment Act of 1946 charges this committee with advising the Congress "with respect to each of the main recommendations made by the President in the Economic Report." The recommendations of the President as summarized in the *Economic Report of the President, January 1952*, (p. 25) are quoted, followed by the views of the committee.

Defense Production Act renewal

President's recommendation: Renew the Defense Production Act for 2 years, and strengthen its provisions, particularly those relating to production expansion and to the control of prices and credit.

Committee's views: The Defense Production Act was important in the mobilization and stabilization effort of the past 18 months. Powers to allocate scarce materials and to control prices, wages, and credit will continue to be necessary in the coming year. The committee cannot foresee the kind and extent of controls needed beyond that time. In extending the act, the appropriate committees should weigh means of strengthening it, especially with the Congress relying heavily on economy in expenditures by both consumers and business and thus on high rates of voluntary private savings to curb inflation.[5]

Foreign-aid programs

President's recommendation: Provide continued military and economic aid to free nations; and, as a step toward removing trade barriers, repeal Section 104 of the Defense Production Act, which restricts our imports of certain goods which European and other countries could export to us on mutually advantageous terms.

Committee's views: The Nation's economic policies are a major factor in the struggle against communism, fully as important as military preparedness. The details of the mutual security program

[5] "I would not agree to a 2-year renewal of the Defense Production Act as requested by the President, but would vote for a 1-year renewal. In extending the Act I would not wish to ignore the great impetus to the inflationary spiral given by the reactions between wages, costs, and prices. I would personally recommend that provision for increasing wages with increases in living costs on the one hand, and increasing prices with increases of production costs on the other, should both be provided for in the new bill but with a waiting period of at least 3 months between the appearance of the justification and the actual inauguration of increased wages or increased prices authorized therefrom. There would thus be introduced a brake on the rapidity of the inflationary mechanism. A recommendation of this nature was incorporated in our committee's report of a year ago. (Also see Staff Materials, pp. 89–90.)"—Senator Ralph E. Flanders.

just transmitted by the President to the Congress, therefore, must be reviewed from the standpoint of the economic as well as immediate military requirements.

Posed are not only questions of economy in Government expenditures but also questions of national safety and self-interest. It is not economy to balance the budget by undermining the basic program upon which our hopes for world peace are founded. The story attributed to the late Senator from Michigan, Arthur H. Vandenberg, seems not inappropriate. It deals with the man who was drowning 30 feet from shore. He will receive little help from a 20-foot rope.

If there is anything defective in this metaphor, it lies in the fact that our friends in other countries who are threatened by Communist aggression are not the primary ones with whom we are concerned. Our first interest is in ourselves. This is not, therefore, a question of whether we stand by while others drown. It is a question of whether we continue to press for action now to prevent a situation from developing which could involve this country in a third world war with havoc and destruction upon the towns and countryside of the United States.

The committee wishes to make three specific suggestions with respect to our mutual security program: First, in the interest of preserving maximum civilian goods for our own people, our foreign economic aid should be made up of offshore procurement to the maximum possible extent. This would also have the beneficial effect of bringing dollars to the foreign nations that need them.

Second, to the extent that military preparedness is to be fostered abroad, the program should be so drafted as to encourage both military procurement and production by and in the countries to be aided. At the same time, where more military items are coming off our own production lines than this country needs for current use or essential stockpiling—out of appropriations already made—the Congress should consider the drafting of a formula by which such material may be made available to foreign nations, thus avoiding both increased appropriations and unnecessary obligational authority.

Third, the committee believes it is imperative to stress the necessity of expanding production and productive capacity among the free nations associated with us as well as within the United States. Our own progress over the last century has been founded upon the seemingly unbelievable increase in productivity which has taken place in one industry after another—increases stimulated by the competitive character of our industrial economy. Now, in Europe and elsewhere overseas, for the first time, under section 516 of the Mutual Security Act of 1951, we have made it our objective abroad as well as at home to promote increased productivity through action to discourage cartel and monopolistic practices.

Long-run foreign economic programs should form a consistent whole based on the objective of raising living standards throughout the world, thus getting at the causes of international conflict by: (1) improving access to the world's physical resources; (2) increasing the know-how, the technology and the incentives for people to make maximum productive use of these resources; (3) increasing the freer exchange and movement of materials in the free world markets; and (4) facilitating freer movement of people, ideas, and capital to improve the balance between population and resources.

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Aid to small business

President's recommendation: Aid small business by providing the necessary funds for the Small Defense Plants Administration.

Committee's views: The mobilization program has had a damaging impact on small producers. Because of size and limited financial reserves, small business is especially vulnerable to the imbalances caused by large-scale military buying, rationing of materials, price and wage controls, heavy taxation, and a tight skilled-labor market. Since current small-business problems stem in large measure from disruptions created by the mobilization program, the Government has a responsibility for taking every precaution to minimize the hardships produced for small enterprises. At its last session Congress established the Small Defense Plants Administration to meet this obligation. An appropriation was passed providing funds for initial planning and organization but not for operation. This committee feels that adequate funds should be provided for a purposeful small-business operation and it therefore endorses the President's recommendation.

Further, the committee recommends that small-business organizations from other departments should be transferred to the Small Defense Plants Administration with the exception of small-business activities and organizations necessary to normal operations of the respective departments.

At the same time, the committee maintains that congressional efforts to assist small business cannot be limited to these steps. The Senate and House Committees on Small Business must continue their efforts on behalf of small business. Both committees in their annual reports just issued have made recommendations relating to how small-business men can become more effectively integrated in the defense program.

Labor-management relations

President's recommendation: Revise the basic legislation concerning labor-management relations, so that it will not hamper sound and healthy labor relations and uninterrupted production.

Committee's views: There can be no quarrel with a goal of "sound and healthy labor relations and uninterrupted production." Actual experience during the past year suggests that labor-management relations have been generally satisfactory. The Council of Economic Advisers points out that "total man-days of labor lost through work stoppages during this period (1951) were lower than in any other postwar year" (p. 54). Experience may call for modification of basic labor-management legislation, however, to promote maximum productive employment.

Agricultural legislation

President's recommendation: Repeal the sliding scale provisions in existing agricultural price support legislation; provide a workable support program for perishable commodities; and modify the tax on unallocated reserves of farm cooperatives.

Committee's views: High levels of food and fiber production and fair incomes for farm families are basic national policy. It may be possible to maintain the desirable flexibility of existing agricultural price support legislation and still give farmers the assurance needed to enlist their wholehearted support in the production effort by raising the levels of reserves of key nonperishable farm commodities that must be reached before the sliding-scale features go into effect.

A substantial part of the agricultural labor force today is not employed to the maximum advantage of the economy. In this connection, the committee calls the attention of the appropriate committees to a staff study of underemployment of rural families.[6] In brief, this study suggested (1) increasing the productivity on existing small-scale farms; (2) increasing the size of the farm; (3) assisting farm families who desire employment outside their home communities; and (4) increasing employment opportunities of part-time farmers, rural nonfarm families, and hired farm workers.

This committee is in no position to advise with respect to perishable commodities or the taxation of unallocated reserves of farmer cooperatives.

Taxation

President's recommendation: Provide at least enough additional revenues to reach the revenue goal proposed last year, by eliminating loopholes and special privileges, and by tax rate increases.

Committee's views: Inequities in the tax structure should be eliminated as far as possible and tax administration should be tightened. We recommend against general increases in tax rates at this time for the reasons expressed above.

Federal Reserve authority

President's recommendation: Provide powers to the Board of Governors of the Federal Reserve System to impose additional bank reserve requirements; and provide authority to control margins for trading on commodity exchanges.

Committee's views: The powers of the Board of Governors of the Federal Reserve System to regulate credit are important to the Nation's economic stability. They are an important element of a study now being carried out by a special subcommittee of this committee—the Subcommittee on General Credit Control and Debt Management. In order to bring into focus the issues to be considered, the subcommittee has directed a series of questions to Government agencies, non-Government economists, bankers, and others, and has published in full the replies of Federal agencies and summaries and extracts of those received from persons outside of the Federal Government. The subcommittee began hearings on March 10. Following the hearings, the subcommittee will report to the full committee, which will make recommendations to the Congress.

Federal programs and assistance in housing, education, medical care, social security and development projects

President's other recommendations:

Provide for the construction of needed housing and community facilities in defense areas;

Authorize Federal aid to help meet school operating costs, and increase aid for school construction and operation in critical defense areas;

[6] *Underemployment of Rural Families*, materials prepared for the Joint Committee on the Economic Report by the committee staff, 82d Cong., 1st sess. (1951).

Authorize Federal aid to assist medical education, and provide for strengthening local public health services;

Raise the level of benefit payments, and make other improvements, in our system of old-age and survivors insurance, and strengthen the Federal-State unemployment insurance system; and

Provide for certain urgently needed development projects, particularly the St. Lawrence seaway and power project.

Committee's views: The extent to which these programs can be initiated now is necessarily limited not only by congressional authorizations but by the availability of skilled manpower and scarce materials. Only those projects which definitely advance the defense effort or are vital for the most essential civilian needs justify approval at this time.

However, the long-range defense effort of the Nation depends fundamentally on well-educated and healthy citizens. It would be false economy therefore to fail to provide for the schools, the expansion of aid to promote medical education, and the necessary public health services which are needed now in light of the very high birth rate of the war and postwar years. The growing proportion of aged among our population and the rise in living costs mean that increasing attention must also be given to their needs.

The determination of what public development projects should be initiated should take into consideration the long-run need for such projects, their cost and the availability of necessary materials. A decision on the St. Lawrence seaway is particularly urgent in view of the growing need by the inland steel industry for economic access to additional sources of high-grade ore.[7]

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This report of the Joint Committee on the Economic Report concentrates on what the committee considers the major economic issues facing the Congress this session. In accordance with customary procedures, the committee, preliminary to the preparation of its report, sought additional facts and analyses bearing on materials contained in the President's Economic Report from three sources: (1) Executive and open hearings with the heads of appropriate executive agencies of the Federal Government; (2) panel sessions with non-Government technicians; and (3) questionnaire returns from representatives of the leading economic interest groups. These materials are published in the committee's hearings.

The materials prepared by the committee staff and attached to this report on *National Defense and the Economic Outlook for Fiscal Year 1953*, provided the committee with useful information on the economic implications of various programs.

[7] "I would prefer to have the last sentence read: 'A decision on the St. Lawrence seaway is particularly urgent in view of the expressed determination of the Canadian Government to proceed with construction on its own account unless we settle the matter within the next few months'."—Senator Ralph E. Flanders.

SUPPLEMENTAL VIEWS OF SENATOR DOUGLAS (SENATOR BENTON, CONCURRING)

The committee report is generally acceptable. But in my opinion, it is not specific enough and lacks proper emphasis. In support of this conclusion, I submit the following statement of supplemental views. Senator Benton joins with me in this statement.

I. GENERAL CONSIDERATIONS

The law establishing the President's Council of Economic Advisors and this joint committee had two main purposes: (1) To provide for an annual review and analysis of the Nation's economy so that the Congress, the Executive, and the People would be aware of important economic factors upon which policy decisions could be based, and (2) to provide executive submission of the Economic Report early in the year so that the joint committee could study it quickly and issue its report. The Economic Report and the report of this committee were thus expected to set the climate of opinion for later actions affecting the national economy.

It is because the report of this committee is such an integral part of this process that it should consist of a much stronger and more specific statement.

There is no question but that the most dangerous economic problem we face today is that of inflation—how to carry forward our vital defense preparations and protect our financial integrity at the same time.

In the first place, we should make the causes of inflation crystal clear. Only through a widespread understanding of these causes can we mobilize public support to combat the distress and instability of rising prices. If the American people understand what will probably happen to prices when we incur huge budget deficits, we will get the support necessary to cut nonessential Federal spending. Otherwise, if the problems of reducing the deficit are presented as being difficult and probably not practical to carry out, public apathy will make it impossible for us to make the necessary reductions.

The plain truth of the matter is that a big Government deficit will force the Treasury to call upon the banks for loans. The banks will loan by creating credit accounts against which the Government will draw for the payment of labor and materials. Since we now have virtually full employment, except in a few centers, this added monetary purchasing power will not cause otherwise idle labor to be put to work on idle resources. The added credit will therefore not increase the real national income; it will merely give the Government more money with which to bid up the prices of materials and of labor and hence will probably lead directly to inflation with all its bad effects.

These consequences should not be blinked at. The problem should be attacked at its source, namely the enormous deficit which the administration proposes.

II. THE ECONOMIC REPORT

Let us look, first, at the Economic Report, and then deal with what we should emphasize in our own report.

Faced with successive deficits of $8.2 billion in 1951–52 and $14.4 billion in 1952–53, what does the Economic Report say about the need for reducing nonessential expenditures? It says, "True economy is desirable at all times." Then it proceeds to a defensive argument as to why it is virtually impossible to effect economy.

The report lists the need to cut nonessential Government spending with the need to cut nonessential private spending. But how can we expect the public to heed such a plea for private saving when nothing is advanced but reasons for not reducing Government spending.

With constant references to defense needs, the report implies that the only way to retrench is to weaken our national security. I feel certain that the members of this committee reject such a notion.

Having talked away the need for economy except for a few, highly qualified meaningless platitudes, what does the report say about inflation which is bound to follow? It devotes a large part of the discussion to the role of private savings—whether the extra credit injected into the economy by budgetary deficits will be saved by the public or used to bid up the prices on the available supply of goods. Then it admits that "this is a precarious situation" and that if the money is spent, something will have to be done. And what can be done, according to the report? Taxes, restrictive credit policies, allocation and limitation orders, and price and wage controls.

No mention is made of reductions in nonessential spending levels. Only $5 billion in new taxes is asked. The report seems simply to say that we must have deficits, hope that private savings will hold down inflationary pressures, and rely on direct economic controls to stop inflation. The attitude of the Council of Economic Advisors toward a big Government deficit reminds one indeed of Mr. Dooley's comment about Theodore Roosevelt's attitude toward the trusts: "On the one hand, I am against the trusts. On the other hand, not so fast."

This does not mean to imply that the report is bad. It contains a good review of the economic problems facing the Nation and makes many good legislative recommendations. But, so far as deficit spending and attendant inflationary pressures are concerned, the report seems simply to throw in the sponge. "Let us accept the existence of deficits" it says in effect, "and rely on direct controls to stop inflation." In other words, "Let us feed the fires of inflation and use a medicine dropper on it when it gets too hot."

III. THE COMMITTEE REPORT

The committee report makes a much stronger case for economies, although its advocacy of a pay-as-we-go system is rather passive. Much more of the report is however devoted to the very definite implication that this cannot be carried out in practice. The statement stresses the large percentage of total expenditures for defense purposes; the large amounts of carry-over appropriations; the fact that basic legislation would be required to make any substantial reductions; and how Congress is losing control over appropriations.

The cash budget can be balanced with rigorous economies and the closing of tax loopholes. But we need to be specific in our words since we must be specific in our acts. Nor does the report deal with the fact that, much as we dislike increasing tax revenues, this may be a lesser evil than permitting a disastrous inflation to take place. For the Congress must adopt heroic measures if we are to save this country from inflation. But if the trumpet gives an uncertain sound, who, then, will summon up courage to do battle.

Finally, the report should be more specific with respect to the control of bank credit expansion.

How can we balance the budget?

This committee should insist on a balanced cash budget without real damage to our security. Furthermore, it should do so, not with generalities, but with a positive program. This can be done with drastic cut-backs not only in waste, overhead, and the favorite subsidies, projects and programs of other people, but also with reductions in our own favorites. Only in this way can we demonstrate to Congress, the administration, and the public that we really mean business. Let us not only *be* for economy. Let us fight for it.

The program outlined below for balancing the pending cash deficit of $10 billion is made on the basis of an over-all review of the budget.[1] As we move toward enacting legislative changes and making appropriations we may modify some recommendations here and there. On the whole, however, it is a good general program which our committee should have urged in its report.

Expenditures reductions

CIVILIAN BUDGET

Area	Saving
AGRICULTURAL PROGRAMS	
1. Agricultural conservation program payments (This program is estimated to cost $269 million. It consists of bonus payments to farmers for carrying out approved farming practices. Much of it goes to prosperous farmers on fertile, flat soil who do not need it and who would carry out these practices anyway. We should stop most commitments immediately and allow only those which are needed.)	$120,000,000
2. Personnel (Department of Agriculture spends about $315 million yearly for personnel. Consolidation of county and field offices and other overhead should easily permit a 19 percent reduction.)	60,000,000
3. Research (Agricultural research is just as high as it was in peacetime, namely, about $150 million a year. During present period, this can be cut back by one-third.)	50,000,000

[1] Senator Benton wishes to make it clear that the specific list of cuts in the budget, proposed by Senator Douglas and in which Senator Benton joined, are not final and definitive suggestions from his standpoint, and will not necessarily determine his future voting. First, there are other potential areas for cutting expenditures not listed in this statement. Second, it is probable that some of the examples cited here should be cut, if at all, less than suggested.

This list, however, serves a most valuable purpose. It shows dramatically how hard it will be to provide $10 billion to balance the cash budget. It shows how many activities must give way—must be postponed, eliminated or pared. It demonstrates the need for courageous and tough leadership both by the administrative agencies and the Congress—if the grave risks to the domestic economy are to be minimized.

Expenditures reductions—Continued

CIVILIAN BUDGET—Continued

Area	Saving
AGRICULTURAL PROGRAMS—continued	
4. Price supports (During a period when rising, not falling, prices are our main problem, we should enact legislation to reduce these expenditures of $240 million by one-third.)	$80,000,000
Total reductions, agricultural programs	310,000,000
PUBLIC WORKS	
Expenditures for rivers and harbors, irrigation, flood control, and multiple-purpose projects, airports, and highways and secondary roads (Such public works programs cost us nearly $2 billion a year. Practically all are claimed to have a defense connection. But we should be able to save $400 million on all but those where defense needs are clear and compelling by (1) stopping new and substantially new starts, (2) slowing down the *rate* of construction, (3) stopping nondefense phases of multiple-purpose projects, (4) enacting legislation to apply "user" charges to navigation projects, (5) requiring local and private contributions for cost of flood control projects, (6) scrutinizing new airports and airport improvements and stopping those carried out because of local pressures, (7) cutting out all grants for secondary roads which are a local, not a national, responsibility, (8) reducing scope of Federal-aid highway program and restricting it to those which make a positive contribution to defense needs, and (9) surveying the possibility of financing defense-connected power projects with bonds sold to the public. This would lessen Federal outlays and soak up private savings at the same time. The St. Lawrence seaway and the Hell's Canyon project—both needed for defense purposes—should be financed by this method.)	400,000,000
Total savings, public works	400,000,000
VETERANS' PROGRAMS	
1. Mortgage program—eliminate payment of first year's interest	75,000,000
2. GI education program (Teague report shows many abuses—$250 million could be saved primarily in farm training program and by carrying out recommendations of Teague committee.)	250,000,000
3. Personnel and general overhead (180,000 VA employees cost about $750 million yearly. Savings from personnel and other overhead reductions.)	100,000,000
Total savings, veterans' programs	425,000,000
SAVINGS IN INTEREST PAYMENTS	
1. Pay public-debt-average interest rates to all trust and insurance funds as is done in the case of OASI	40,000,000
2. Pay public-debt-average interest rates on refunds (These are primarily tax refunds and 6 percent is paid. This is such a high interest rate that it encourages overpayment for the sake of getting these high interest rates.)	50,000,000

Expenditures reductions—Continued

CIVILIAN BUDGET—Continued

Area	Saving
SAVINGS IN INTEREST PAYMENTS—continued	
3. Charge RFC for back interest (RFC owes $300 million in back interest. This should be spread out over a period of years.)	$75,000,000
Total savings, interest payments	165,000,000
EXPENDITURES FOR MISCELLANEOUS SUBSIDIES	
1. Airline subsidies (Would have to pass a good bill to separate subsidies from mail rates to do this. Saving would be for both domestic and international mail.)	40,000,000
2. Shipping subsidies (Present contracts already provide much encouragement to merchant marine.)	30,000,000
Total savings, subsidies	70,000,000
WASTE AND MISCELLANEOUS REDUCTIONS	
1. Post Office (Savings in consolidating rural routes, use of "scooters" and other increases in efficiency. Postal rates need also to be increased and the committee should urge this. But such increases are already included in budget estimates and therefore cannot be used to decrease estimated deficit.)	100,000,000
2. Miscellaneous reduction in waste and nonessential programs (By careful scrutiny of all civilian items by members of Appropriations Committees and other Members of Congress, such savings can be made.)	300,000,000
Total savings, waste, and miscellaneous	400,000,000
Total savings, civilian budget (rounded)	1,800,000,000

MILITARY BUDGET

1. Require discharge from Reserves of those who because of age, hardship, or essential occupation become unavailable for duty	$50,000,000
2. Eliminate hazard and incentive pay (No need for incentives with existence of draft law. In fact, it causes inequities since some who are drafted do not get it. Combat infantrymen certainly have as hazardous duty as flyers—more so when flying is not done in combat. Savings in pay would be $200 million. Another $200 million could be saved in gasoline and airplane expenses.)	400,000,000
3. Research (Savings of 10 percent from total expenditures of $1.4 billion by eliminating waste and lowest priority projects.)	140,000,000

Expenditures reductions—Continued

MILITARY BUDGET—Continued

Area	Saving
4. "Expediting production" (This is primarily Government purchases of machine tools and other capital equipment. Nearly $3 billion allocated for this purpose last year. Were this all the production encouragement being offered, all would be needed. However, in addition, lucrative, profit-guaranteeing contracts are let, fast tax amortization is granted, and V-loans are being given. Many companies receive 2 or more of these advantages. A 10-percent reduction should therefore be proper.)	$300,000,000
5. Eliminating waste, excessive overhead, overcharges in procurement, and increasing efficiency (Investigations of the Hardy, Hébert, Bonner, Johnson of Texas, Johnston of South Carolina and other committees are replete with evidence of waste in overhead, procurement, and construction. These 3 areas account for $35.6 billion, or 70 percent of the entire military budget. A 9 percent reduction should be possible by close scrutiny, weeding out of waste and placing restrictions on loose operations.)	3,110,000,000
Total savings, military budget	4,000,000,000

FOREIGN AID

Foreign-aid expenditures are vital to our security as well as the security of our allies. However, the budget calls for nearly a 50 percent increase in these expenditures. This program could advance at the same rate that we are increasing domestic military expenditures. A $1.8 billion reduction in foreign aid would still allow an increase of $1.85 billion or 25 percent.	
Total saving, foreign aid	$1,800,000,000
Total savings, expenditures reductions	7,600,000,000

Increased revenue by separating tax subsidies and closing tax loopholes

Area	Increased revenue
1. Separating subsidies on mineral production from tax allowances (The percentage-depletion allowances are defended on the basis of their need to encourage exploration for defense-needed minerals. These caused a loss of revenue of at least $750 million. These privileges should all be revoked and subsidies made directly as has been advocated in the case of air-mail subsidies by the Hoover Commission. Depletion allowances are presently out of proportion with the need. $500 million could be saved by such a separation.)	$500,000,000

Increased revenue by separating tax subsidies and closing tax loopholes—Continued

Area	Increased revenue
2. Withholding tax on dividends and corporate bond interest (Since we have a withholding tax on wages and salaries, we should also have it on dividends and corporate bond interest. Estimates of revenue loss by not having such a system was $323 million in 1951. It will probably be closer to $400 million during 1952–53.)	$400, 000, 000
3. Family partnerships formed for tax-avoidance purposes (Recipients of income from wages and salaries cannot split income with infant children to avoid higher surtaxes. Why should anyone? Bona fide family partnerships, where partners contribute capital, services, or control have always been permitted and this recommendation does not affect these.)	100, 000, 000
4. Excess-profits tax (New escapes placed in 1951 Revenue Act will cause $100 million revenue loss. Excessive exemptions in original law should be tightened.)	500, 000, 000
5. Estate and gift taxes (Estate and gift taxes have not been increased since 1942. In effect, they were even reduced in 1948. Repealing the 1948 amendments, increasing these taxes by 15 percent, and cutting exemptions in one-half would bring in $600 million more in revenue.)	600, 000, 000
6. Capital-gains tax (At least $270 million more revenue would result by increasing maximum capital-gains rates by the same proportion as we have increased individual income tax rates since the outbreak of hostilities in Korea. Other substantial amounts of revenue would result from taking away special privileges to the recipients of certain types of income who are permitted to apply capital-gains rates to their income rather than regular income tax rates. Income from such sources as coal royalties, the raising of certain types of livestock and timber are now given this privilege.)	300, 000, 000
Total increased revenue without increasing general tax rates	2, 400, 000, 000
Plus: Savings and expenditures reductions	7, 600, 000, 000
Total reduction of deficit	10, 000, 000, 000

IV. CONTROL OF BANK CREDIT EXPANSION

In his Economic Report, at page 22, the President states the danger that "we may face considerable pressure for excessive expansion of bank credit." He undoubtedly refers here to pressures from private business, and he recommends offsetting this pressure with increased authority to impose additional bank reserve requirements. There should be general agreement with this recommendation, and it is hoped that the President will transmit to the Congress specific recommendations regarding reserve requirements so that we may consider the necessary legislation.

On the other hand, the Economic Report makes no mention whatever of the pressures which have been exerted upon the Federal Reserve

System by the Treasury and the administration to buy unlimited quantities of Government securities. When the Federal Reserve buys these securities, it does so by crediting member banks with added reserves. These member banks can then create more credit for private business and can do this by about six times the increase in their reserves. Since the banks naturally want to earn on their assets, they normally increase loans and credit as their reserves in the Federal Reserve System rise. But this increase in bank credit, if it is not accompanied by an increase in physical production, causes prices to rise and hence helps the forces of inflation. The pressure from Government to expand credit can, therefore, be a great force in creating inflation. Government should, therefore, keep its own hands clean, both with its budget and its monetary and credit policies.

In a period of comparatively full employment, it should not run huge deficits or force the Reserve System to expand bank reserves. For by so doing, the Government would be the biggest contributor to the inflation which it is professing to check.

From World War II on, the Treasury put pressure upon the Reserve System to buy large quantities of Government securities in order to keep up their price and keep down the interest rate. These increases in reserves helped to cause the increase in prices which occurred from 1946 to the fall of 1948.

The last time the Treasury exerted these pressures was during the "buying spree" which followed Korea. The Reserve System yielded to these pressures and gave a rigid support to the Federal bond market and bought everything that was offered at fixed prices. That policy had the following results: Federal Reserve holdings of all Government securities increased by nearly $3.5 billion in the period August 16, 1950, to February 14, 1951; commercial bank credit expanded by $9.1 billion during the last half of 1950; during that same period, the privately held money supply expanded by $7.2 billion. At the same time (between June 1950 and February 1951) the wholesale price index rose over 16 percent and the consumers' price index over 8 percent. It is interesting that the price level increased in about the same rate as the quantity of money and credit.

The story of the last half of 1950 is, simply, the story of tremendous pressures upon the banks for loans to finance, among other things, "scare buying" and speculation; the unloading of enormous quantities of Government securities by the banks in order to expand their reserves and meet the demand for loans; and a tremendous outpouring of reserve dollars from the Federal Reserve System, as a result of its commitment to purchase all the Federal securities offered, into the reserves of banks.

In April 1951 the Federal Reserve System abandoned its rigid support of the Federal bond market. Its purchases of securities fell off markedly, and it now holds less than it did then. Almost immediately wholesale prices started to fall.

This is not to claim any sole relationship between the slackening of price rises and the abandonment of a rigid support policy by the Federal Reserve System. Others factors were also involved, such as the advent of price and wage controls, and of real estate and consumer credit controls, and the passing of the "scare buying" psychology. But it can be said that the new policy had a distinct beneficial effect.

It is true that the abandonment of the rigid support policy in March and April of last year resulted in a general rise of interest rates, and there are many who would picture this abandonment as "an attempt to control inflation through a purposeful high-interest-rate policy." Attention should not be focused upon the interest rate, however, but upon the *flow of reserve dollars* from the Federal Reserve System into the economy *at a time of full employment.* Inflation cannot necessarily be stopped or controlled solely by a flexible support policy. But a rigid support policy during a period of heavy pressures for rapid bank credit creates rapid price increases. We should adopt a flexible and restricted support policy during such an abnormally expansive period in order to remove this source of financing inflation. It is better to have a stable price level, even if it means a rising interest rate, than to have a stable interest rate at the cost of rising prices.

The last time we were confronted with abnormal pressures for bank credit expansion—namely, in the months following Korea—we had to go through a precious time-consuming struggle to determine what we should do. During that struggle, literally billions of dollars flowed from the Reserve System into the reserves of banks, to be expanded and pumped into the money supply through loans. If, as the President says in his report, we are again to be confronted with those pressures, we ought this time to have our policy firmly fixed. That policy should be to avoid another outpouring of reserve dollars through unlimited purchases of Government securities by the Federal Reserve System. It is to be hoped that the Treasury has profited from experience and that the present agreement may be allowed to continue.

V. SUMMARY

If we take the steps outlined in these views, we will be able to balance the budget and prevent inflation. For if we cut expenses by $7.6 billion, we will bring total outlays down to approximately $77.8 billion. An increase of $2.4 billion in revenue by the methods recommended will bring receipts up to nearly $73.4 billion. This would give us a probable deficit of $4.4 billion in the administrative budget. But since the social security and other trust funds yield a surplus of contributions over benefits of approximately $4.5 billion, this will mean that the consolidated cash budget will approximately balance. This will eliminate the danger of inflation caused by a Government deficit.

If we do this, we will still be able to defend ourselves and the free world in a thoroughgoing manner. But in doing so, we will also eliminate waste and the less necessary items of expenditure. As a result we will live within our income. We will, indeed, have hit a pace which we can maintain even if the cold war were to continue for years longer. We will have guarded our internal economy as well as our external situation.

Such a program will, of course, excite tremendous opposition. Many groups will not want to make the necessary sacrifices. They will sincerely want the Nation to be defended, but they will want this to be done at somebody else's expense rather than at theirs. They, therefore, will tend to oppose the specific proposals for economy and for increasing tax revenues. The military leaders, ignoring the shameful wastes which have been revealed in their organization, will say that if their funds are cut by a single dollar, the national safety will be endangered. The State Department and its friends will say that if we cut recommended spending for foreign aid by one iota our system of alliance will fall apart, and the world will begin to turn toward communism. The combined barrage of high military brass and of some journalists and administrators will be turned upon us if we dare to make economies.

Similarly there will be great opposition to the cuts proposed in the civilian budget. Shipbuilding and ship-operating firms and the airlines will demand that their subsidies be continued. Many farmers will object to having subsidy and price support payments reduced. There will be a terrific outcry over reducing appropriations for rivers and harbors, for irrigation, flood control, and secondary roads. Veterans' groups will attack attempts to remove the abuses from the GI program. The full force of the Federal bureaucracy and its friends will take the field to prevent us from dropping the excessive number of Government employees now in such agencies as the Departments of Agriculture and State and the Veterans' Administration. Postal employees will fight the consolidation of rural and town routes. Newspapers and magazines, direct mail advertisers and mail-order houses will marshal great strength against an increase in postal rates which would make them pay a larger fraction of the real costs of carrying them through the mails. It will be the same in the field of revenues.

On each and every item, Congress will be bombarded with a host of arguments as to why the specific cut should not be made, and terrific pressure will be exerted against us. The specific interests opposed to a given economy or revenue measure will be vociferous and powerful. The public interest will tend to be diffused and weak.

It will indeed be easy for Congress, as specific appropriation bills come up, to say as did Rip Van Winkle, "We won't count this time." But if we do this, we, like Rip, will fail in the test. We will continue to be fiscal drunkards. The test is whether we can make the fine general principles of our words become real in our own concrete acts on specific appropriation bills.

Words can be fine, but actions speak louder. And they form the real test. If we fail, the fine vows in behalf of economy taken during the winter months when no concrete decisions were before us will vanish during the spring and summer before the pressures of the specific appropriation bills.

If we stand firm, however, and make our position clear, we will gradually cause the public to understand what we are trying to do. We will get more and more support. Even many of the specific interests affected will see the correctness of our position, and will tacitly agree. We may be able to save our country from insolvency and inflation. It is worth the try.

MINORITY VIEWS

The report of the majority submitted to us for consideration contains many interesting and general statements. Everyone, we assume, agrees that extravagance and waste in Government should be rooted out. We all want adequate national security and still preserve our economy, avoiding further deficits and inflation in the process. We agree that the Government, business, and the people should exercise restraint in expenditures, and in other ways assist to achieve these goals.

We feel that the report sets forth many of these high purposes, but appears to lack both conviction and method as to their accomplishment. For example, the report says:

> A reduction of approximately $10 billion would seem to be necessary to accomplish this purpose (to eliminate the cash deficit)—

and later—

> This brings us face to face with the question as to whether * * * the Congress can afford even for a short time to permit deficit spending. The committee believes it is highly dangerous to indulge in this luxury—

and again—

> Furthermore, while the members of the committee individually support many specific proposals to reduce expenditures we believe that it is unrealistic to expect that a majority of the Congress will support enough of these this session to balance the cash budget for fiscal year 1953 by expenditure reductions.

Thus the suggested $10 billion reduction in expenditures, to avoid the "luxury" of a deficit, is finally termed "unrealistic" and a smaller figure of reduction is probably expected. Perhaps that accounts for the omission of any schedule of expenditure cuts, but instead a considerable analysis is given of the nature of various expenditure items, which emphasizes the difficulty of cutting them.

In other respects the report introduces discussion of many items which are scarcely pertinent or important in the basic and hard tasks of protecting the economy from inflation and dislocation during the indefinite period of security preparations.

Accordingly, we do not join in approving the report as a whole and briefly state our position below, reserving the privilege to comment in greater length and detail at a later date.

The majority report rejects the two major recommendations made by the President and his economic advisers:

(*a*) The high level of expenditures proposed, and

(*b*) An increase in taxes.

We welcome this position. It recognizes as unrealistic further increases in taxes, which have already reached the point of diminishing returns, only to fall short of ever-growing expenditures. Under existing law only by reducing expenditures in every possible area can we counteract the inevitable inflation resulting from deficits. We are convinced the cuts can and must be made if we are to maintain our basic economic strength, the prerequisite to our whole defense program.

On the other hand, the report fails to recognize adequately the importance of monetary and credit policy and its role as an anti-inflationary force. In this we concur with the views as set forth by Senator Douglas. These restate the position taken by the minority in its three previous annual dissents with the President's and the majority's reports. We believe that much, if not most, of the anti-inflationary effect that might have been expected from the imposition of taxes since Korea has been dissipated by the delay in freeing the Federal Reserve Board's monetary and credit functions from Treasury domination.

Aside from the three major items to which we have referred, other considerations and recommendations of the report could have only a secondary, and in some cases insignificant, impact on the economic stability and strength of the country. We prefer to stress, therefore, the reduction of expenditures, no increase in taxes, and a firm and independent control by the Federal Reserve Board over monetary and credit policies in consonance with responsibilities and authority prescribed by law.

ROBERT A. TAFT.
ARTHUR V. WATKINS.
JESSE P. WOLCOTT.
CHRISTIAN A. HERTER.
J. CALEB BOGGS.

NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK FOR THE FISCAL YEAR 1953

MATERIALS PREPARED

FOR THE

JOINT COMMITTEE ON THE ECONOMIC REPORT

BY THE

COMMITTEE STAFF

96529—52——3

LETTERS OF TRANSMITTAL

FEBRUARY 21, 1952.

To Members of the Joint Committee on the Economic Report:

For the information of members of the Joint Committee on the Economic Report there is transmitted herewith materials on National Defense and the Economic Outlook for the Fiscal Year 1953, prepared by the committee staff. The basic information was drawn from Government and private statements and reports, from the recent hearings of the Committee on the President's Economic Report, and from staff conferences with technicians inside and outside the Government.

These materials are submitted to members of the committee for their consideration preliminary to the preparation of the committee's report on the President's Economic Report as provided by the Employment Act of 1946. It is understood, of course, that these materials do not necessarily represent the views of the committee or any of its individual members.

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

FEBRUARY 20, 1952.

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

DEAR SENATOR O'MAHONEY: Transmitted herewith are committee staff materials on national defense and the economic outlook, for the current fiscal year and for fiscal year 1953. In addition, over-all projections are made beyond 1953 on the basis of assumptions as to economic growth and military strength. This report is built around the basic concept of a Nation's economic budget.

These staff materials suggest the economic trends and programs of the private and public sectors of the economy with the resulting inflationary pressures under the President's program of military build-up. Throughout, the projections shown are those used in official statements or represent estimates by the staff consistent with the guideposts contained in such official statements. Abstracts of these official statements are shown in Appendix B. Where the staff disagrees with official estimates such dissents are noted in the text or in footnotes.

A spelling out of public and private programs in Part I suggests moderate, but potentially dangerous, inflationary pressures during the next 2 years. Alternative policies and programs for maintaining economic stabilization and growth during this period and beyond are presented in Part II.

The materials focus on the economic outlook and implications of alternative economic programs. The text does not attempt to review economic developments of the past year except insofar as necessary for an understanding of the projections.

It is important to 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. Furthermore, 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 models, once prepared, is to show the direction and the approximate order of magnitude of economic developments on the basis of the stated assumptions.

Appendixes contain technical notes on the Nation's economic budget concept, excerpts of official statements on the economic outlook and economic policy, information on the work and publications of the committee during the past year and projects under way.

These materials are submitted as the composite views of the committee's full-time professional staff, namely, James W. Knowles, John W. Lehman, William H. Moore, Thaddeus J. Obal, and myself. In the development of these materials we have had the help and cooperation of economic consultants, technicians in the legislative and executive agencies, and others outside the Government.

Respectfully submitted.

GROVER W. ENSLEY, *Staff Director.*

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NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK FOR FISCAL YEAR 1953

SUMMARY

The magnitude and timing of the defense program are the major factors shaping the future of the economy. The President's program for fiscal year 1953, as set forth in his January messages, involves Federal administrative budget expenditures of $85.4 billion (of which $65.1 billion are for major security programs); revenues of $71 billion under present tax rates; and an administrative budget deficit of $14.4 billion. Taking into consideration the surplus in the trust accounts, this would mean a consolidated cash deficit of $10.4 billion. By way of comparison with this budget, the peak budget expenditures of World War II—$98.7 billion in fiscal 1945—would be equivalent to about $160 billion in June–July 1951 prices.

Total national production, on the basis of staff analyses of the labor force, productivity, and output, is estimated at $355 billion for fiscal year 1953, in June–July 1951 prices.

After making allowance for private investment, State and local outlays, and the President's budget program, the staff estimates that individuals could expect to have available for consumption $214 billion worth of goods and services at June–July 1951 prices. This would provide per capita consumption (constant prices) of $1,351 as compared with $1,327 in the current fiscal year; $1,357 in fiscal 1951; $1,119 in 1944—the peak of World War II; and $980 in 1939.

Combined Federal, State, and local government expenditures for goods and services under the President's program would comprise 26.3 percent of gross national production in fiscal year 1953 as compared with 23.1 percent in the current fiscal year; 15.9 percent in fiscal 1950—just before the outbreak of the Korean war; 45.2 percent in 1944—the peak of World War II; and 14.3 percent in 1939. Additional comparisons are shown in table I, page 41.

While aggregate expenditures contemplated for the defense effort appear small compared to expenditures for World War II, nevertheless the impact on many industries will be severe—particularly those using scarce metals.

The incomes generated by a defense effort of the size contemplated pose problems for economic stabilization. Consumers may try to spend during fiscal year 1953 some $5 billion more than supplies of goods available at June–July 1951 prices.

These calculations actually minimize the inflationary risk. The important point is not the precise magnitude of this estimated consumer inflationary demand, but rather that the analysis, on a conservative-risk basis, shows inflationary tendencies in the economy. If consumers should attempt to spend out of their money incomes

more than the supplies available at constant prices, then prices would tend to rise at a rate which would endanger the stability and continued growth of the economy. Such a price rise might be further accelerated by both the operation of the cost-push mechanisms, and the spending by individuals and business of the large volume of widely distributed liquid assets.

These inflationary pressures may not be felt until summer or early fall. While the budget for the current fiscal year, as set forth by the President, suggests a cash deficit of $4 billion (administrative budget deficit of $8 billion), the staff is inclined to believe, on the basis of reports for the first 7 months of the fiscal year, that expenditures will fall short of budget estimates by about $2 billion. Therefore, on a cash basis the deficit of the Federal Government for the fiscal year 1952 as a whole may be about $2 billion. These circumstances, together with the other considerations set forth in this report, indicate that stability may reasonably be expected during the immediate months ahead, unless the international situation worsens.

Alternative Stabilization Programs

What are the possible courses of public and private action which will reasonably assure continued economic stability and growth during fiscal year 1953? The materials which follow suggest, quantitatively, the implications of three alternative courses of congressional action none of which alone would completely balance the cash budget.

First, raise $5 billion of additional Federal tax revenue and tighten the direct control program to assure high rates of individual savings. This, substantially, is the program called for by the President.

Or, second, reduce Federal Government expenditures by at least $5 billion thereby increasing supplies of civilian goods and services available to satisfy consumer demand.

Or, third, rely upon individuals to save nearly 10 percent of disposable personal income.

Combinations of these alternatives could be used.

Temporary Departure From Pay-as-we-go Principle

For the first 2 years of the Korean war, fiscal years 1951 and 1952, the accumulated cash surplus will be about $3.6 billion, on the basis of staff estimates. This situation has resulted (1) from enactment of three tax bills producing some $15 billion additional revenue (annual rate); (2) from a reduction in all other than major security expenditures by over $2 billion annually (the fiscal 1953 budget estimate for these items is $20.3 billion compared with $22.7 billion actually expended in 1950); and (3) from price increases which increased tax receipts during this period to a greater extent than total Government expenditures.

The President estimates a cash deficit of about $10 billion in fiscal 1953. If taxes were increased $5 billion (or if expenditures were reduced $5 billion), the resulting cash deficit of $5 or $6 billion would represent what might be called a "temporary departure from the pay-as-we-go principle." The departure from pay-as-we-go would be temporary on the assumption that defense expenditures can be reduced later to a maintenance level as projected in tables VII, page 58, and VIII, page 59. The defense effort over the fiscal years 1951–53 would be almost paid for on a cash basis out of tax collections in those 3 years if taxes are increased or expenditures reduced as indicated above.

Analysis of the debt management problem for the next year suggests that the monetary system could finance a moderate cash deficit without inflationary consequences.

The Danger of "Cost-Push" Inflation

A major inflationary force during the next 2 years will be the "cost-push" phenomenon stressed in recent reports of this committee.[1] Major economic-interest groups have obtained provisions for adjusting their money income on the basis of cost and price developments. These largely automatic adjustments—with the present and prospective high levels of consumer and business income, accumulated savings, and Government demand—lend themselves readily to the stimulation of further rises in prices.

When there is considerable unemployment or unused plant capacity, it is possible for increases in wages, in farm price support levels, or in business profits, to draw idle resources into the production of goods and services for the satisfaction of consumers. But, as this committee has pointed out, operation of these mechanisms, when resources are fully or near fully utilized, can greatly aggravate inflationary pressures. The principal usefulness of direct controls is in this area.

Congressional Control of Federal Expenditures

An examination of the Federal budget and of governmental machinery suggests that the rate of Federal expenditures during the next year and a half will be largely determined by production rates and by military implementation of programs already voted by Congress. Of the $85.4 billion estimated expenditures for fiscal 1953, $41.9 billion, or 49.1 percent, will result from obligational authority which was made available in prior years.[2] Unless action is taken by the Congress to rescind or abrogate this authority already given to the executive branch, these expenditures will be made at a rate set by the administration on the basis of executive evaluation of military risk, production possibilities, and stabilization considerations. Even drastic reductions in new appropriation requests for fiscal 1953 would have less than a dollar-for-dollar effect on total 1953 expenditures because of the large carry-over of unexpended amounts of these new appropriations. In the short run, therefore, congressional control of Federal expenditures is limited. Substantial short-run reductions would require cancellations of contracts already entered into on the basis of authority previously voted by Congress. Such cancellations would be costly to the Government.

The executive branch exercises whatever Government control is exercised over the rate of defense spending in the short run and, hence, not only controls the military program as such, but also influences the course of the Nation's economy. While major defense decisions in the executive branch are made by the President, with the advice of the National Security Council, the Bureau of the Budget, and the Council of Economic Advisers, from an operating standpoint much of the actual exercise of this authority rests with the Secretary of Defense and with the Director of Defense Mobilization.

[1] *Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President*, 82d Cong., 1st sess., S. Rept. 210, pp. 8 and 9; and Joint Committee on the Economic Report, *Inflation Still a Danger*, 82d Cong., 1st sess., S. Rept. 644, p. 20.

[2] Joint Committee on the Economic Report, *Hearings, January 1952 Economic Report of the President* (January 23, 24, 25, 26, 28, 30, 31, February 1), 82d Cong., 2d sess., February 1952, p. 467.

Congressional control over the amount and rate of Federal expenditures is derived much more from its power to authorize Government programs for future fiscal years than from annual control of expenditures for the immediate fiscal year. In addition to the appropriation review, the surveillance exercised by the Congress in its investigating and watchdog capacity will influence the way in which the executive branch carries out the authority granted it in basic legislation. Present control over the amount and timing of expenditures by the Congress should be thoroughly reappraised, and the possibility of annual expenditure control for a larger portion of the budget should be explored. Government economy requires both improved congressional machinery and the type of public expenditure principles discussed later in this report.[3]

Foreign Economic Policy

United States' temporary foreign assistance authorized by the Congress should meet not only military, diplomatic, and technological requirements but also these economic tests: (1) The aid should enable foreign countries to make a contribution to mutual security commensurately larger than would be the case without our aid, and a contribution larger than would be achieved by spending these funds in this country for our own defenses; and (2) the assistance should contribute to the economic security of free nations against Communist expansion. At any particular time the division of foreign assistance between military and economic aid rests upon evaluations of economic, technological, or military conditions.

Long-run foreign economic policy looking toward a solution of the basic causes of the world's economic maladjustments would need to deal with means for (1) improving access to the world's physical resources; (2) increasing the "know-how," the technology, and the incentives for people to make maximum productive use of these resources; (3) increasing the freer exchange and movement of materials in world markets; and (4) facilitating freer movement of people, ideas, and capital so as to improve the balance between population and resources.

After the Defense Build-up

The outlook at the moment is for a long-drawn-out period of military mobilization. Therefore, regardless of other considerations, we must develop fiscal, monetary and regulatory programs that encourage economic stability and growth over an indefinite period. In part, the growth and stability of the economy over a long period rests on the size and character of the maintenance level of the defense program after the build-up has been accomplished. The Council of Economic Advisers projects this maintenance level at $40 billion to $50 billion. A careful study of this maintenance budget, including requirements for materials, manpower and money, might be recommended to the appropriate congressional committees by the Joint Committee on the Economic Report.

The staff is preparing materials on the nature and magnitude of the problems of economic stability and growth after the anticipated build-up hump is passed and Government expenditures can decline. The appendix materials indicate other projects that the committee has under way at the present time.

[3] See pp.80-82

TABLE I.—*Selected measures of the relation of Government programs to the National economy. Actual calendar years 1939 and 1944 and fiscal year 1951; estimated fiscal years 1952* [1] *and 1953* [1]

[Billions of dollars except as noted]

Item	Fiscal 1953 [2]	Fiscal 1952 [2]	Fiscal 1951	Calendar 1944	Calendar 1939
Gross national product	355.0	335.0	309.5	213.7	91.3
National income	300.6	284.0	262.4	183.8	72.5
Personal income	271.0	259.0	239.9	165.9	72.6
Disposable personal income	237.0	228.0	215.2	147.0	70.2
Personal consumption expenditures	214.0	206.5	202.7	111.6	67.5
Population (millions)	158.4	155.6	153.1	138.4	131.0
Real disposable personal income [2]	237.0	228.0	221.8	204.1	133.5
Per capita in dollars [2]	1,496.0	1,465.0	1,450.0	1,475.0	1,019.0
Real personal consumption expenditures [2]	214.0	[3] 206.5	207.7	154.8	128.4
Per capita in dollars [2]	1,351.0	1,327.0	1,357.0	1,119.0	980.0
Total Government purchases of goods and services	93.4	77.4	50.6	96.5	13.1
As percent of gross national product	26.3	23.1	16.3	45.2	14.3
As percent of national income	31.1	27.3	19.3	52.5	18.1
Federal purchases of goods and services	71.3	55.6	29.9	89.0	5.2
As percent of gross national product	20.1	16.6	9.7	41.6	5.7
As percent of national income	23.7	19.6	11.4	48.4	7.2
Major national security	66.4	50.7	26.4	87.4	1.3
As percent of gross national product	18.7	15.1	8.5	40.9	1.4
As percent of national income	22.1	17.9	10.1	47.6	1.8
All other Federal programs	4.9	4.9	3.5	1.6	3.9
As percent of gross national product	1.4	1.5	1.1	0.7	4.3
As percent of national income	1.6	1.7	1.3	0.9	5.4
State and local purchases of goods and services	22.1	21.8	20.7	7.5	7.9
As percent of gross national product	6.2	6.5	6.7	3.5	8.7
As percent of national income	7.4	7.7	7.9	4.1	10.9
Federal administrative budget expenditures	85.4	70.9	44.6	97.2	9.2
As percent of gross national product	24.1	21.2	14.4	45.5	10.1
As percent of national income	28.4	25.0	17.0	52.9	12.7
Major national security	65.1	49.7	26.4	90.9	1.4
As percent of gross national product	18.3	14.8	8.5	42.5	1.5
As percent of national income	21.7	17.5	10.1	49.5	1.9
All other Federal programs	20.3	21.2	18.2	6.3	7.8
As percent of gross national product	5.7	6.3	5.9	2.9	8.5
As percent of national income	6.8	7.5	6.9	3.4	10.8
State and local budget expenditures	25.2	24.8	23.6	8.5	9.3
As percent of gross national product	7.1	7.4	7.6	4.0	10.2
As percent of national income	8.4	8.7	9.0	4.6	12.8
Taxes (total Federal, State, and local), liabilities	99.6	92.0	82.8	52.7	16.3
As percent of gross national product	28.1	27.5	26.8	24.7	17.9
As percent of national income	33.1	32.4	31.6	28.7	22.5
Federal (liabilities, including social security)	76.7	70.3	62.4	41.6	6.7
As percent of gross national product	21.6	21.0	20.2	19.5	7.3
As percent of national income	25.5	24.8	23.8	22.6	9.2
Federal (collections basis)	71.0	62.7	48.1	44.3	5.2
As percent of gross national product	20.0	18.7	15.5	20.7	5.7
As percent of national income	23.6	22.1	18.3	24.1	7.2
State and local (liabilities, including social security)	22.9	21.7	20.4	11.1	9.6
As percent of gross national product	6.5	6.5	6.6	5.2	10.5
As percent of national income	7.6	7.6	7.8	6.0	13.2

[1] Fiscal 1952 and 1953 estimates are based upon President's estimates and recommendations in the January 1952 budget message. The staff of the Joint Committee on the Economic Report considers the 1952 estimate of total budget expenditures and of major national security about $1.9 billion too high.

[2] Constant June-July 1951 prices. For detailed explanation, see footnote 1, table IV.

[3] The fiscal 1952 estimate for real personal consumption expenditures is $1.9 billion higher than the estimate of $204.6 billion that is consistent with the President's budget estimates. The estimate in this table assumes that about $1.9 billion worth of goods and services previously estimated to be required for Federal programs will instead be available to consumers.

Source: Actuals, Bureau of the Budget, U. S. Treasury and Department of Commerce; estimates, staff, Joint Committee on the Economic Report.

Part I—Economic Trends And Projections

CHAPTER I

ESTIMATES OF TOTAL OUTPUT

Projections of employment, hours of work and output per man-hour indicate that gross national product valued in constant June-July 1951 prices could increase from the $316 billion attained in fiscal year 1951 to $335 billion in fiscal 1952 and to $355 billion in fiscal 1953. By fiscal 1955 gross national product valued in constant June-July 1951 prices could rise to about $380 billion.

Budgeting an economic program of "guns plus butter" requires first an estimate of the volume of output obtainable during the next several years from the Nation's productive plant and equipment. Production must supply military needs, civilian requirements, and make possible expansion of capacity for future higher levels of production. Success in meeting military and civilian requirements, as well as in controlling inflation, depends upon the magnitude of production and the speed and efficiency with which it is increased.

The volume of production depends not only upon the physical capacity of plant and equipment, the supply of working capital, and the richness of fields, mines, and forests, but also upon the size and skills of the labor force, output per man-hour, and the number of hours worked per year. Underlying these factors is the whole accumulation of technical knowledge, or "know-how," together with the initiative and cooperative spirit of the millions of individuals which largely provide the driving force and coordination of this free enterprise economy. In the discussion of projections of output in this Nation's economic budget, attention is concentrated on employment, hours of work, and output per man-hour. These estimates were made by the committee staff, and are consistent with the guideposts furnished by the executive agencies in the selected excerps in appendix B.

Labor Force and Employment

Total civilian employment which averaged 60.8 million in fiscal 1951 and 61.4 million in fiscal 1952 might reach 62.9 million in fiscal 1953 and 63.9 million by fiscal 1955, assuming a median estimate of growth in the total labor force, Armed Forces of 4.0 million by the end of calendar 1953 or in 1954, and an allowance for frictional unemployment.

In the first half of 1950 the total civilian labor force numbered 62,429,000, of which 58,555,000 were employed and about 3,874,000, or 6.2 percent of the total civilian labor force, were unemployed. Just 1 year later the Nation had increased the number in the armed services to approximately 3.5 million, the goal announced by the President. The total civilian labor force in the first half of 1951 was about 62,255,000, or slightly less than the year before, but employment had gone up by 1,634,000 so that unemployment had declined to 2,065,000, or about 3.3 percent of the total civilian labor force. The net increase in employment resulted from an increase of over 2,124,000 in nonagricutural occupations and a decline of 489,000 in agricultural occupations. In the second half of calendar 1951 unemployment dropped to about 2.7 percent of the total civilian labor force.

An examination of trends of the increase of the population 14 years of age or over and of the rate of participation of the population in the labor force indicates that, on a conservative basis, in the first half of calendar 1952 the civilian labor force might reach 62.7 million, and by the first half of 1953 about 64.5 million. In the following years, a reasonable expectation would be an increase in the civilian labor force of about 0.4 million between 1953 and 1954 and of about 0.5 million between 1954 and 1955. This would bring the total civilian labor force to about 65.4 million persons 14 years of age or over by the first half of calendar 1955. These estimates include 1.5 million "extra" workers to be added to the labor force during 1952 and 1953 of which about 1.1 million are expected to remain in the labor force by the first half of 1955.

The labor market was almost as tight in the second half of calendar 1951 as is assumed [1] for the next 5 years. The number of unemployed may continue at about 1.7 million in the first half of calendar 1952. This is assumed to represent almost the minimum frictional unemployment, making allowance for average "turn-over" or job shifting, small unavoidable economic maladjustments in individual industries between supply and demand, and regional maladjustments between labor supply and job opportunities. The minimum of 1.5 million might be reached by the first half of 1953. During 1954 and 1955 unemployment is assumed to rise slightly as defense requirements pass the peak.

On these assumptions, civilian employment might reach 63.6 million by the first half of 1955. Of this total, on the basis of long-term trends in the economy, about 6.6 million would be employed in agricultural pursuits and about 57.0 million in nonagricultural pursuits. If these trends materialize, about 1.8 million would be unemployed in the first half of 1955, or about 2.8 percent of the civilian labor force. (For details of this projection, see table II, p. 45.)

Certain characteristics of this projection of the labor force, employment and unemployment for the civilian sector of the economy should be emphasized.

First, it is essentially conservative, being based on normal growth in the labor force and a moderate allowance for extra workers due to the defense program. Furthermore, the rate of participation of those 14 years of age and over in the civilian labor force might well turn out to be slightly higher than assumed, especially among women.

Second, the number in the armed services is assumed to rise to a level of 4 million by the end of calendar 1953 or in 1954. This would provide manpower needed for contemplated expansion of the Air Force to 143 wings and corresponding changes in other military services.[2]

[1] Similar conclusions were reached by Bureau of Employment Security, U. S. Department of Labor, in *Manpower and Partial Mobilization*, September 1951, pp. 21-23.
[2] See ch. 2 for detailed military assumptions.

Third, these projects assume only unemployment in the civilian labor force which would result from the normal turn-over in the labor force from one job to another, from regional imbalances between labor supply and demand, and from temporary unemployment due to scattered maladjustments in individual industries between supply and demand.

Fourth, these estimates assume that demand will be sufficient to insure a market for the resulting output. These estimates give the probable maximum employment of the projected labor force and should not be used as a forecast of actual employment in future years. They make no allowance for any unemployment which might develop if demand should turn out to be too low to absorb the output of the projected employment or for increases in the labor force at above median rates.

TABLE II.—*Civilian labor force, employment and unemployment, actual calendar years 1929–51; estimated, 1952–55*

[Millions of persons, 14 years of age and over]

Period	Civilian labor force					Unemployment as percent of total civilian labor force
	Total civilian labor force	Employment [1]			Unemployment	
		Total	Agricultural	Nonagricultural		
1929	49.2	47.6	10.4	37.2	1.6	3.3
1930	49.8	45.5	10.3	35.1	4.3	8.7
1931	50.4	42.4	10.3	32.1	8.0	15.9
1932	51.0	38.9	10.2	28.8	12.1	23.6
1933	51.6	38.8	10.1	28.7	12.8	24.9
1934	52.2	40.9	9.9	31.0	11.3	21.7
1935	52.9	42.3	10.1	32.1	10.6	20.1
1936	53.4	44.4	10.0	34.4	9.0	16.9
1937	54.0	46.3	9.8	36.5	7.7	14.3
1938	54.6	44.2	9.7	34.5	10.4	19.0
1939	55.2	45.7	9.6	36.1	9.5	17.2
1940	55.6	47.5	9.5	38.0	8.1	14.6
1941	55.9	50.3	9.1	41.2	5.6	9.9
1942	56.4	53.7	9.2	44.5	2.7	4.7
1943	55.5	54.5	9.1	45.4	1.1	1.9
1944	54.6	54.0	9.0	45.0	.7	1.2
1945	53.9	52.8	8.6	44.2	1.0	1.9
1946	57.5	55.2	8.3	46.9	2.3	3.9
1947	60.2	58.0	8.3	49.8	2.1	3.6
1948	61.4	59.4	8.0	51.4	2.1	3.4
1949	62.1	58.7	8.0	50.7	3.4	5.5
1950	63.1	60.0	7.5	52.5	3.1	5.0
1951	62.9	61.0	7.1	53.9	1.9	3.0
1950—First half	62.4	58.6	7.2	51.3	3.9	6.2
Second half	63.8	61.4	7.8	53.6	2.4	3.8
1951—First half	62.3	60.2	6.7	53.4	2.1	3.3
Second half	63.5	61.8	7.4	54.4	1.7	2.7
1952—First half [2]	62.7	61.0	6.8	54.2	1.7	2.7
Second half [2]	64.4	62.8	7.3	55.5	1.6	2.4
1953—First half [2]	64.5	63.0	6.7	56.3	1.5	2.3
Second half [2]	65.5	64.0	7.2	56.8	1.5	2.3
1954—First half [2]	64.9	63.3	6.6	56.7	1.6	2.5
Second half [2]	66.0	64.3	7.1	57.2	1.7	2.6
1955—First half [2]	65.4	63.6	6.6	57.0	1.8	2.8

[1] Includes part-time workers and those who had jobs but were not at work for such reasons as vacation, illness, bad weather, temporary lay-offs, and industrial disputes.

[2] Estimated; assumes: (a) sufficient demand—Government and private—to sustain projected employment; (b) normal growth in total labor force plus an addition of 1.5 million during 1951 and 1952 due to expansion of armed forces and other defense needs; (c) about 1.1 million out of extra 1.5 million increase in the total labor force (including armed forces) will remain in labor force by 1955 because of estimated 4.0 million armed forces rather than pre-Korea 1.5 million armed forces; and (d) armed forces will reach 4.0 million by the end of calendar 1953 or during 1954.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Actuals, (1929–39) Department of Labor and (1940–51) Department of Commerce; estimates, (1952–55) Staff, Joint Committee on the Economic Report.

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TABLE III.—*Derivation of estimates of gross national product in constant dollars,[1] actual calendar years 1947–51; estimated, 1952–55*

Calendar year	Gross national product	Gross Government product [2]	Gross private product	Index of gross private product	Index of output per man-hour	Index of private employment	Index of average annual hours per worker
	(1939 dollars (in billions))			(1947=100)			
Actual							
1947	138.6	9.8	128.8	100.0	100.0	100.0	100.0
1948	143.5	9.7	133.7	103.8	102.7	102.5	98.6
1949	143.5	10.3	133.2	103.4	106.2	100.8	96.6
1950	154.3	10.5	143.8	111.6	111.7	103.0	97.0
1951	166.0	13.2	152.7	118.6	117.7	103.9	97.0
Estimated							
1952	177.0	13.4	163.6	127.0	123.3	105.6	97.5
1953	187.2	13.6	173.6	134.8	126.7	108.6	98.0
1954	191.7	13.8	177.9	138.1	129.9	109.0	97.5
1955	196.0	13.9	182.1	141.4	133.1	109.5	97.0

1 Due to past misinterpretations of similar tables in previous reports, the staff wishes to emphasize that no projection of prices is made or implied. This table is in terms of constant prices as of the average of 1939. The gross national product figures represent changes in physical units as near as can be determined.

2 Gross Government product is the number of Government employees, both military and civilian, Federal, State and local, multiplied by 1939 pay roll costs per employee.

NOTE.—Detail will not necessarily add to totals because of rounding.

Source: Gross national product, gross Government product, and gross private product (1947–51): U. S. Department of Commerce. All other data by staff, Joint Committee on the Economic Report.

Fifth, these estimates assume that there will be no war other than the present engagement in Korea before July 1955, and make no provision for the Korean war beyond fiscal 1952.

Hours of Work

Average annual hours per worker are assumed to rise slightly in calendar 1952 and 1953 and then decline by 1955 to 1951 levels.

In any year, total man-hours are affected by (1) the total employment; (2) the normal number of hours worked per week per worker; and (3) the average number of days per year not worked because of holidays, vacations, strikes, bad weather, temporary shortages of materials, seasonal slack demand, changes in product design, changes in equipment, or other interruptions to the smooth flow of production.

The historical trend toward less annual working time per worker was taken into consideration in these projections but it seemed advisable not to allow for further reductions of any substantial character in the length of the work-year. Annual hours per worker are assumed to rise slightly in 1952 and 1953 and then to decline by 1955 to 1951 levels. There will undoubtedly be some further declines in average hours per worker due to the decline in the proportion of the labor force employed in agriculture. Moreover, some occupations and industries will bring their vacation, holiday, and working hour practices more into line with what is considered the best industrial practice. But largely offsetting these declines will be the increased hours of overtime required in some bottleneck industries and occupations. The requirements of the defense program may well create shortages of particular skills, or of individuals with certain technical training, even though, in the aggregate, there is adequate manpower.[3]

3 *Manpower and Partial Mobilization*, op. cit., September 1951, pp. 46–50; also see recent Manpower Report Series, Bureau of Labor Statistics U. S. Department of Labor.

Thus, we might have spotty unemployment or short hours, for example, in the textile industry [4] while at the same time hours would be lengthened in other industries. Even then there would be, for example, a shortage of skilled toolmakers, electronics workers, etc. As is pointed out below, there are indications that this problem may become of major importance in the near future.

Output per Man-Hour

> **Output per man-hour is assumed to increase during calendar years 1951 and 1952 at more than the long-term average trend, or at about 5 percent. Thereafter the annual rate of increase is assumed to decline toward the long-term rate. Higher-than-average rates of increase in output per man-hour are assumed because of high levels of investment in modern plant and equipment and changes in the relative importance in total output of products with high rather than low value per man-hour.**

Variations of output per man-hour are the net result of (1) the influence of changing technology and the efficiency of labor and management; (2) changes in invested capital per man-hour; (3) changes in the percentage of the total output accounted for by products with a high average value per man-hour of labor used in production compared with products with relatively low value per man-hour of labor used in production; and (4) variations in the percentage of capacity that is in operation.

Numerous investigations of the long-term trend of output per man-hour show estimates ranging from about 1.8 percent per year to about 2.2 percent, or an average of about 2 percent per year. Since 1947 output per man-hour in the private economy [5] has increased more than the long-term rate. This is a result of the combined influence of levels of operation as a percent of capacity favorable to high efficiency, exceptionally heavy investment in new plant and equipment, and the effect of recent investment on the average age of our plant and equipment which affects its average technical efficiency.

For the years 1951 through 1955 it is assumed that fixed capital investment will remain relatively high,[6] and that productive activity will continue at levels as close as practicable to the capacity of the economic system. Even though some industries were not operating at full capacity and others were hampered by shortages of plant and materials, output per man-hour apparently increased about 5 percent between 1950 and 1951 (see table III, p. 46). The rate of increase assumed for 1952 is slightly under 5 percent. A tapering off in subsequent years toward 2.5 percent per year is assumed.

The assumption in regard to output per man-hour is reasonably conservative. Older plants and equipment are continually being replaced by new possessing higher technical efficiency. In a period of maximum employment and above-average investment, this process is

[4] Memorandum from Robert C. Goodwin, Defense Manpower Administration, U. S. Department of Labor, to National Labor-Management Committee, entitled, "Textile Unemployment in New England," November 14, 1951.

[5] Output per man-hour is computed only for the private sector since, in estimated gross national product, Government product is computed on the assumption of no change in productivity because no satisfactory measure of productivity in Government has been devised.

[6] This is also required if employment is to reach the levels assumed in table II, p. 15.

accelerated so that technical improvements, which would on the average be made in only certain industries, become effective over a high proportion of the economy. The last two decades have been periods of rapid technical advances in science and in production methods. Heavy investment, therefore, might well result in rates of productivity exceeding those assumed.

On the other hand, if output per man-hour does not rise as rapidly as assumed, output might nonetheless reach the levels indicated. Hours could be lengthened sufficiently to offset lower than assumed levels of output per man-hour.

Total Output

In terms of June-July 1951 prices, gross national product is estimated to increase from $316 billion in fiscal 1951 to $335 billion in fiscal 1952, to $355 billion in fiscal 1953, and to about $380 billion by fiscal 1955.

The assumptions in regard to the labor force, employment, unemployment, hours of work, and output per man-hour in the civilian economy yield the estimates in 1939[7] dollars of gross private product given in the third column of table III, page 46. The estimates for the years 1952 and 1953 might be exceeded if there were no shortages in plant capacity and materials in certain bottleneck areas.[8]

These bottlenecks and shortages can be illustrated in terms of estimated steel, aluminum, and electric power requirements. In June 1950, steel capacity was approximately 100,000,000 tons; as of the fall of 1951 it was about 107,000,000 tons; and by the middle of 1953 it is hoped that a goal of 120,000,000 tons can be achieved. Similarly, for aluminum capacity; the estimate for June 1950 was 750,000 tons, which has since been increased to 800,000 tons, and a goal has been set of 1,500,000 tons by the middle of 1954. Electric power capacity, which was 67,500,000 kilowatts in June 1950, is scheduled to be increased by the end of 1952 to about 97,000,000 kilowatts. For many materials it has been necessary for the Defense Production Administration and the National Production Authority to set up allocations and a controlled-materials plan to deal with temporary shortages.

Miscalculation in allocating materials, improper scheduling of output beyond what is feasible and wastage of resources through improper allocation are compounded when there is a lack of adequate information. For example, we should seek to develop a bill of particulars which will show the materials, manpower and plant and equipment necessary for various levels of output of varying composition. This is necessary not only for the purpose of making over-all analyses of the economy, such as is illustrated by this report, but also for successful administration of many Government programs.

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[7] The price level utilized by the Department of Commerce in computing the historical data from which these estimates are made is that of the calendar year 1939. The same price level is used here in order that comparisons can be made easily with the Department of Commerce data. The data and estimates are converted to a fiscal year basis and to June–July 1951 prices in table IV. p. 50.

[8] The Council of Economic Advisers states that, "military requirements for the major metals will increase through most of 1952, and at their peak will absorb roughly one-fifth of the steel supply, one third of the copper supply, and about half the supply of aluminum. It is probable, however, that with large increases in supplies, these proportions will fall substantially in 1953. Thus the main materials impact, and the main economic impact, of the military production program probably will come during the next 12 months." *The Annual Economic Review*, January 1952, p. 98.

In addition, there is a distinct danger that particular types of military equipment may be selected for production which, whatever their military virtues, nevertheless require materials or production techniques which the Nation cannot possibly make available when the military item in question goes into full mass production. In other cases, orders for military items with varying uses or for different services, while perfectly reasonable as separate items, will, if put into mass production simultaneously, require materials, manpower [9] or facilities larger than existing supplies and perhaps larger than can be procured. There seems to be evident need for better information and research in defense procurement and planning.

Gross Government product, in table III, page 46, is the number of Government employees, both military and civilian, Federal, State and local, multiplied by 1939 [10] payroll costs per employee. This is based upon the military assumption previously indicated—4,000,000 in uniform by the end of 1953 or in 1954—plus other required civilian Government employment.

In terms of 1939 prices,[10] total gross national product, which increased about 7.9 percent between 1950 and 1951, could increase about 6.6 percent between 1951 and 1952, and could then continue to rise to about $196 billion in 1955 (at 1939 prices) which would be 27 percent above the calendar year 1950. This would be an average increase of about 5 percent per year for the 5 years.

If these estimates in 1939 prices are converted to the price level prevailing in June–July 1951,[11] the gross national product for fiscal 1952 would amount to about $335 billion, and for fiscal 1953 to about $355 billion. By the fiscal year 1955, ending June 30, 1955, gross national product would be about $380 billion in terms of June–July 1951 prices.[11] Table IV, page 50, gives the historical data in June–July 1951 prices [11] for the fiscal years 1948 through 1951 and the estimates for the fiscal years 1952 through 1955, both for the total gross national product and for its assumed composition as to personal consumption, investment, and goods and services for Federal, State, and local governments. This distribution between the various categories in table IV is consistent with the assumptions in chapter 2 concerning government purchases, and in chapter 3 concerning private investment.

[9] "Manpower is primarily a local problem. * * * it is inevitable that the over-all demand for workers will exceed labor supply in some communities. In other areas, more limited, but nevertheless serious, occupational shortages have developed and will continue." From *Manpower and Partial Mobilization*, op. cit., September 1951, p. 26.

[10] See footnote 7, p. 48.

[11] For detailed explanation of this price level assumption, see footnote 1, table IV, p. 50.

TABLE IV.—*Gross national product and major components, actual fiscal years 1948–51; estimated, 1952–55.*

[Billions of dollars; constant June–July 1951 prices [1]]

Fiscal year	Gross national product	Personal consumption expenditures	Gross private domestic investment and net foreign investment	Government purchases of goods and services [2]		
				Total	Federal	State and local
1948	276.0	190.3	46.8	38.9	21.8	17.1
1949	285.2	194.8	42.8	47.6	28.6	19.0
1950	284.2	200.5	39.5	44.2	23.6	20.6
1951	315.4	207.7	56.2	51.5	30.3	21.2
1952	335.0	204.6	53.0	77.4	55.6	21.8
1953	355.0	214.0	47.6	93.4	71.3	22.1
1954	370.0	273		97.0	74.0	23.0
1955	380.0	288		92.0	69.0	23.0

[1] Measured in gross national product price which is the official price deflator developed by the Office of Business Economics, U. S. Department of Commerce, for converting gross national product in current dollars to gross national product in constant 1939 dollars. (See *National Income, 1951 edition, A Supplement to the Survey of Current Business.*) The index differs, therefore, from both the wholesale price index and the consumers' price index because of differences in weights used. However, movements of the index mostly correspond to movements in the consumers' price index of the Department of Labor because consumer expenditures are the largest segment of gross national product. The assumed level for the deflator is about the average of the second and third quarters of calendar 1951, or about the June–July 1951 level. This is about the level which has been assumed by the Bureau of the Budget and other executive agencies in making their estimates for fiscal 1952 and fiscal 1953. The level at the end of calendar 1951 would be slightly less than 1 percent higher. It appears to this staff that while on the expenditures side this is a fair approximation to the price level implied in the official estimates, there appears to be some allowance on the income side in the official estimates for minor upward adjustments. Beyond fiscal 1953 the estimates have been made by the staff consistent with the constant price level as measured by the gross national product deflator at the June–July 1951 average.

[2] Excludes expenditures other than for goods and services, e. g., transfer payments.

NOTE.—Fiscal year figures in this table are derived from quarterly figures. Hence, they will be slightly different from what one would get from averaging calendar year figures in table III and multiplying the result by the deflator.

Source: Staff, Joint Committee on the Economic Report, based on 1929–51 data of U. S. Department of Commerce.

CHAPTER 2

GOVERNMENT

During fiscal 1953, total purchases of goods and services by Federal, State, and local governments are expected to amount to $93.4 billion (June-July 1951 prices).[1] This is an increase of $16 billion from fiscal 1952 or 20.7 percent. Government purchases in fiscal 1953 are expected to amount to 26.3 percent of gross national product, compared to 23.1 percent in fiscal 1952, to 16.3 percent in fiscal 1951 and 45.2 percent in calendar 1944. (See chart I, p. 52, and tables I, p. 41, and IX, p. 60.)

Federal, State, and local receipts are expected to amount to 28.1 percent of gross national product in fiscal 1953, compared to 27.5 percent in fiscal 1952, to 26.8 percent in fiscal 1951 and to 24.7 percent in calendar year 1944.

Federal Expenditures

> **Federal administrative budget expenditures are estimated by the President at $70.9 billion for fiscal 1952, and $85.4 billion for fiscal 1953. Consistent with announced programs total expenditures might be $88 billion in fiscal 1954 and then begin to decline to $72 billion (assumed maintenance level) by fiscal 1958.**

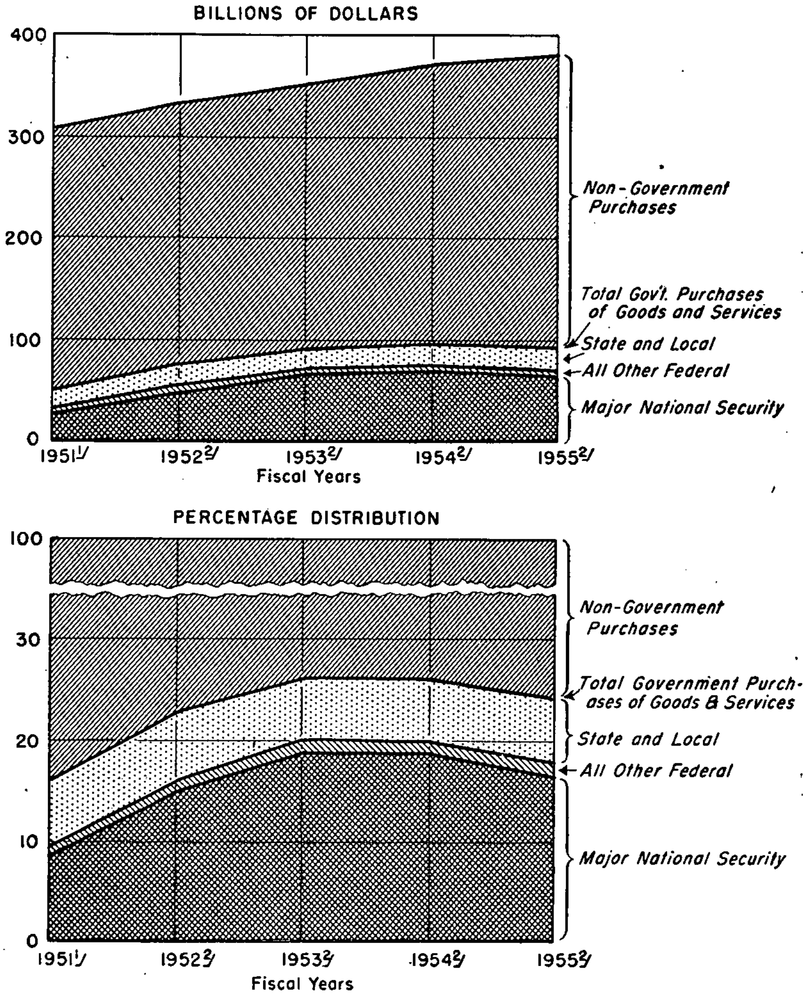
The President's recommendations to the Congress "contemplate an Air Force of 143 wings, an Army of 21 divisions, a Navy with 408 major combatant vessels in the active fleet and 16 large carrier air groups, a Marine Corps of 3 divisions, and essential supporting elements for all these services." [2] The staff assumes that an Armed Forces strength of about 4 million will be reached by the end of calendar 1953 or in 1954.

[1] For detailed explanation of this price level assumption, see footnote 1, table IV, p. 50.
[2] *President's budget for the fiscal year ending June 30, 1953;* p. M12.

Chart I

GOVERNMENT EXPENDITURES FOR GOODS AND SERVICES IN RELATION TO GROSS NATIONAL PRODUCT

Actual Fiscal Year 1951; Estimated, 1952-55



1/ In average fiscal 1951 prices. 2/ In constant June-July 1951 prices; for detailed explanation, see footnote 1, Table IV.

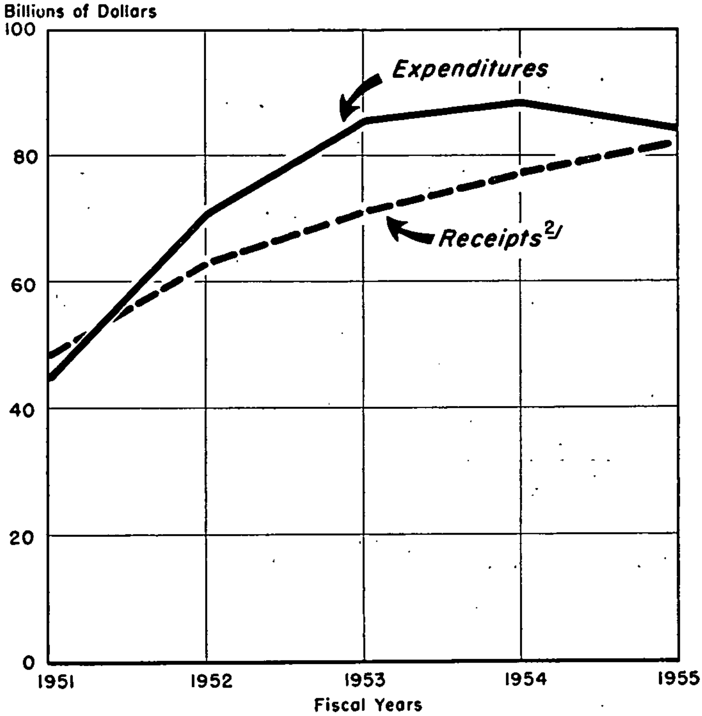
SOURCE: Actual, U. S. Department of Commerce; estimates, Staff, Joint Committee on the Economic Report.

Chart II

FEDERAL ADMINISTRATIVE BUDGET

RECEIPTS AND EXPENDITURES

Actual Fiscal Year 1951; Estimated 1952-55 [1]



1/ Constant June-July 1951 prices used for 1952-55 estimates. For detailed explanation see footnote 1, Table IV.

2/ Assumes existing tax laws for 1953-55 and high employment levels.

SOURCE: Actual, and 1952 and 1953 estimates, Bureau of the Budget and U.S. Treasury; estimates beyond 1953, Staff, Joint Committee on the Economic Report.

TABLE V.—*Analysis of new obligational authority and Federal administrative budget expenditures, fiscal years 1952 and 1953*

[Millions of dollars]

	New obligational authority		Expenditures	
	1952	1953	1952	1953
Budget totals:				
Table 1, 1953 budget			$70, 881	$85, 444
Table 2, 1953 budget	$93, 431	$84, 260		
Deduct:				
Major national security programs:				
Military services	61, 655	52, 359	39, 753	51, 163
International security	9, 397	8, 238	7, 196	10, 845
Development of atomic energy	1, 357	1, 255	1, 725	1, 775
Defense production and economic stabilization	702	1, 145	678	811
Civil defense	75	600	44	339
Promotion of the merchant marine	105	73	288	164
Total, major national security programs	73, 291	63, 670	49, 684	65, 097
Remainder	20, 140	20, 590	21, 197	20, 347
Deduct:				
Major fixed and continuing charges:				
Veterans' services and benefits [1]	4, 364	4, 006	5, 166	4, 022
Interest	5, 955	6, 255	5, 955	6, 255
Transfer of payroll taxes to railroad retirement account	773	723	773	723
Permanent appropriations	284	305	133	133
Postal deficit [1]	814	669	814	669
Reconstruction Finance Corporation	100		−50	−51
Federal National Mortgage Association			543	65
Commodity Credit Corporation	454	131	206	253
Public assistance grants [1]	1, 150	1, 140	1, 180	1, 140
Public roads	557	430	457	464
International Wheat Agreement	77	182	77	182
Payment of claims and reserve for contingencies	41	125	92	150
Total, major fixed and continuing charges	14, 569	13, 966	15, 346	14, 005
Equals: Budget totals, excluding major national security, fixed, and continuing charges	5, 571	6, 624	5, 851	6, 342
Existing legislation	(5, 571)	(5, 746)	(5, 851)	(5, 697)
Proposed legislation		(878)		(645)

[1] Excludes proposed legislation.

Source: Bureau of the Budget, see *Hearings, Joint Committee on the Economic Report on the President's January 1952 Economic Report*, p. 56.

TABLE VI.—*Federal administrative budget expenditures, new obligational authority, receipts and deficits, fiscal years 1952 and 1953*

[Billions of dollars]

Item	New obligational authority				Expenditures			
	1952		1953		1952		1953	
	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total	Amount	Percent of total
Expenditures and new obligational authority:								
Major national security programs:								
Military services:								
Army defense	$20.8		$14.2		$15.0		$16.8	
Air Force defense	22.1		20.7		12.5		18.9	
Naval defense	(16.0)		(13.2)		(10.0)		(12.3)	
Aircraft program [1]	4.6		4.3		1.8		3.3	
Other	11.4		8.9		8.2		9.0	
Other military services	2.8		4.3		2.3		3.2	
Total military services	61.7	(66.1)	52.4	(62.2)	39.8	(56.1)	51.2	(60.0)
International security and foreign relations [2]	9.4		8.2		7.2		10.8	
Development and control of atomic energy	1.4		1.3		1.7		1.8	
Promotion of merchant marine	.1		.1		.3		.2	
Other	.7		1.7		.7		1.1	
Total, major national security programs	73.3	78.5	63.7	75.6	49.7	70.1	65.1	76.2
Major defense-connected programs:								
Interest on the public debt	5.9		6.2		5.9		6.2	
Veterans' services and benefits	4.4		4.2		5.2		4.2	
Total, major defense-connected programs	10.3	11.0	10.4	12.3	11.1	15.7	10.4	12.2
Total major national security and major defense-connected programs	83.6	(89.5)	74.1	(87.9)	60.8	(85.8)	75.5	(88.4)
All other	9.8	10.5	10.2	12.1	10.1	14.2	9.9	11.6
Total expenditures and new obligational authority	93.4	100.0	84.3	100.0	70.9	100.0	85.4	100.0
Receipts					62.7		71.0	
Deficit					8.2		14.4	

[1] Includes operations, but excludes aircraft carrier program.
[2] Detail for mutual security program will be transmitted later. Appropriation for economic assistance for fiscal year 1952 was $1.5 billion, of which $1.1 billion was aid to Europe, leaving about $400 million for economic and technical assistance to non-European areas (Point 4, GARIOA, Palestine refugees, etc.).

Source: President's budget for the fiscal year ending June 30, 1953, arranged by staff, Joint Committee on the Economic Report.

Estimates of expenditures and receipts for fiscal years 1952 and 1953 are shown in tables V, page 54, and VI, page 55. The committee staff estimates for the following fiscal years through 1958 attempt to spell out the announced goals and time schedules of military expenditures. (See chart II, p. 53, and table VII, p. 58.)

The President's budget estimate of total expenditures amounts to $70.9 billion [3] in fiscal 1952, and $85.4 billion in fiscal 1953. Of these totals, major national security programs [4] account for $49.7 billion in fiscal 1952 and $65.1 billion in fiscal 1953.

Present military schedules seem to call for a peak of expenditures for major national security in fiscal 1954 at about $68 billion. Thereafter, expenditures could be expected to decline to a maintenance level by fiscal 1958 unless the international situation worsens. The Council of Economic Advisers estimates that this maintenance level will be between $40 billion and $50 billion.

On the basis of this schedule of major security expenditures, total Federal budget expenditures might be $88 billion in fiscal 1954, and then decline to $72 billion by fiscal 1958. (Detailed schedules are given in table VII, p. 58, table VIII, p. 59, and chart III, p. 57).

Federal Receipts

> **Under present tax laws, Federal receipts can inincrease in line with rising economic activity to a level of about $71 billion in fiscal 1953 and possibly to about $82 billion by fiscal 1955, assuming continued maximum employment.**

Federal budget receipts are estimated to be $62.7 billion in fiscal 1952 and $71 billion in fiscal 1953, compared to $48.1 billion in fiscal 1951. They might rise gradually to about $82 billion by fiscal 1955 assuming the continuance of existing tax laws and rising levels of economic activity. The President's recommendations (see table VII, p. 58) seem to imply cash deficits (including trust fund accumulations) under existing tax laws for the fiscal years 1952 through 1954 and cash surpluses thereafter.

State and Local

> **It is assumed that State and local expenditures will increase slowly in accordance with the long-term trend and that receipts under present tax laws will increase in line with rising levels of economic activity.**

With regard to State and local programs it has been assumed that expenditures on goods and services by State and local governments will increase slowly in response to increasing population, increasing numbers of children requiring school facilities, and modest increases in expenditures to keep such physical facilities as roads more nearly in line with the requirements of our economy. The increase that has been assumed is less than that shown in recent years, as will be clear from an examination of tables IV, page 50, and IX, page 60.

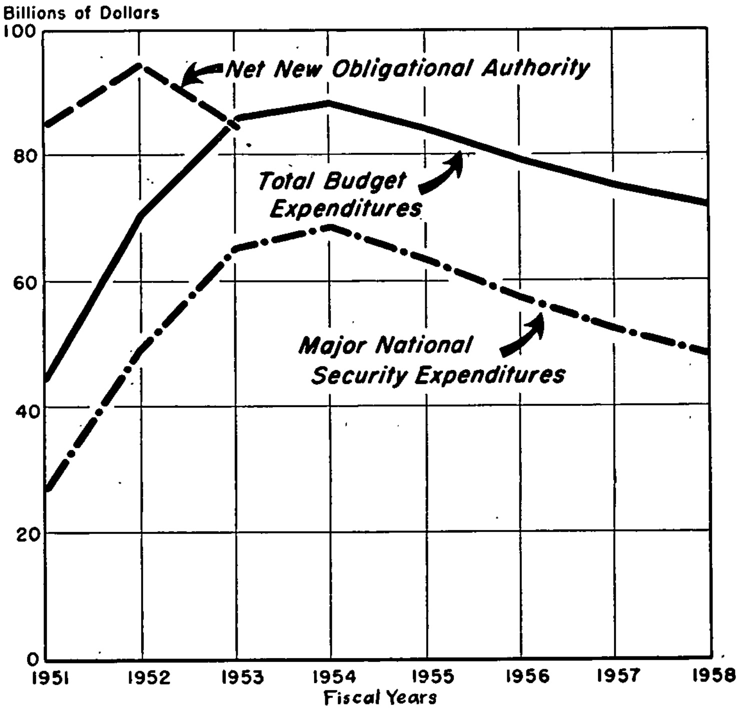
[3] On the basis of reports for 7 months of the current fiscal year (1952), the staff believes that total Federal expenditures may fall short of this estimate of $70.9 billion by about $1.9 billion.

[4] Includes military services, stockpiling, international security and foreign relations, civil defense, atomic energy, defense production, economic stabilization, and merchant marine.

Chart III

FEDERAL ADMINISTRATIVE BUDGET EXPENDITURES, MAJOR NATIONAL SECURITY EXPENDITURES, AND NET NEW OBLIGATIONAL AUTHORITY

Actual Fiscal Year 1951; Estimated, 1952-58[1]



[1] Constant June-July 1951 prices used for 1952-58 estimates. For detailed explanation, see footnote 1, Table IV.

SOURCE: Actual, and 1952 and 1953 estimates, Bureau of the Budget; estimates beyond 1953, Staff, Joint Committee on the Economic Report.

In fiscal year 1950, State and local purchases of goods and services, priced at June–July 1951 prices,[5] were about $20.6 billion. In fiscal 1952 they are expected to be about $21.8 billion. Thereafter, it has been assumed that State and local expenditures for goods and services will increase to about $23 billion by 1955. This is an increase of about $2.4 billion in 5 years against the previous increase between fiscal 1948 and 1950 of $3.5 billion. State and local revenues are likewise assumed to rise with increased economic activity, provided present tax structures are maintained in State and local governments.

TABLE VII.—*Federal budget expenditures, receipts, surpluses, and deficits, actual fiscal years 1950 and 1951; estimated, 1952–55* [1]

[Note: Assumes existing tax laws for 1953–55, and maximum employment]

[Billions of dollars]

Fiscal year	Total receipts	Expenditures [2]			Administrative budget surplus or deficit	Cash surplus or deficit
		Total Federal	Major national security	All other Federal		
1950	37.0	40.2	17.5	22.7	−3.1	−2.2
1951	48.1	44.6	26.4	18.2	+3.5	+7.6
1952 [3]	62.7	70.9	49.7	21.2	−8.2	−4.0
1953 [3]	71.0	85.4	65.1	20.3	−14.4	−10.4
1954	77.0	88.0	68.0	20.0	−11.0	−7.5
1955	82.0	84.0	63.0	21.0	−2.0	+2.5

[1] Fiscal years 1952–55 in constant June-July 1951 prices. For detailed explanation, see footnote 1, table IV, p. 50.
[2] Expenditures estimates for 1953–55 include sums to cover expenditures under new legislation proposed by the President in his 1952 budget message and for the proposed increase in the atomic energy program.
[3] President's estimates and recommendations in January 1952 budget message.

Source: Actuals and 1952–53 estimates. Bureau of the Budget and U. S. Treasury; estimates beyond 1953, staff, Joint Committee on the Economic Report.

[5] For detailed explanation of this price level assumption, see footnote 1, table IV, p. 50.

TABLE VIII.—*Authorizations, total funds available, Federal administrative budget expenditures, and carry-overs, estimated fiscal years 1952–58* [1]

[Billions of dollars]

	Brought forward from prior years	Net new authority	Total funds available	Budget expenditures	Carry-over to following year [2]
Military services:[3]					
1952	38.8	61.7	100.5	39.8	60.7
1953	60.7	52.4	113.1	51.2	61.9
1954	61.9			54.0	
1955				51.0	
1956				49.0	
1957				47.0	
1958				45.0	
All other major national security:					
1952	8.5	11.6	20.1	9.9	10.2
1953	10.2	11.3	21.5	13.9	7.6
1954	7.6			14.0	
1955				12.0	
1956				8.0	
1957				5.0	
1958				3.0	
Total major national security:[4]					
1952	47.3	73.3	120.6	49.7	70.9
1953	70.9	63.7	134.6	65.1	69.5
1954	69.5			68.0	
1955				63.0	
1956				57.0	
1957				52.0	
1958				48.0	
All other Federal programs:					
1952	3.0	20.1	23.1	21.2	1.9
1953	1.9	20.6	22.5	20.3	2.2
1954	2.2			20.0	
1955				21.0	
1956				22.0	
1957				23.0	
1958				24.0	
Total Federal administrative budget:					
1952	[5] 50.3	93.4	143.7	70.9	72.8
1953	72.8	84.3	157.1	85.4	71.7
1954	71.7			88.0	
1955				84.0	
1956				79.0	
1957				75.0	
1958				72.0	

[1] Fiscal years 1952–58 in constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV. Estimates for 1952–53 by the Staff of the Joint Committee on the Economic Report based on President's estimates and recommendations in January 1952 Budget Message and on testimony by Director Lawton, Bureau of the Budget, in the hearings before the Joint Committee on the Economic Report, Jan. 24, 1952 (hearings, p. 92). Estimates for later years made by the Staff were consistent with programs outlined in the *Budget Message of the President, 1952,* and the *Economic Report of the President, January 1952,* and assume no worsening of the international situation.

[2] Carry-overs are not adjusted for possible lapses or rescissions.

[3] Includes Defense Department military functions and other activities supporting military services.

[4] Includes military services, military and economic aid, civil defense, promotion of defense production, economic stabilization, atomic energy, and merchant marine.

[5] From *Combined Statement of Receipts, Expenditures and Balances of the United States Government for the fiscal year ended June 30, 1951,* p. 12. Excludes authority to spend from public debt receipts available July 1, 1951.

Source: Estimates, staff, Joint Committee on the Economic Report, based on *Budget Message of the President,* 1952; *The Economic Report of the President, January 1952;* U. S. Treasury, *Combined Statement of Receipts, Expenditures and Balances of the United States Government for the fiscal year ended June 30, 1951;* Joint Committee on the Economic Report, *Hearings, January 1952 Economic Report of the President.*

TABLE IX.—*Gross national product and expenditures for goods and services by Federal, State, and local governments, actual fiscal years 1950 and 1951; estimated, 1952–55*

[Billions of dollars]

Fiscal year	Gross national product	Government expenditures for goods and services: Total	Major national security	All other Federal	State and local
1950 [1]	263.5	41.8	17.4	5.9	18.5
1951 [1]	309.5	50.6	26.4	3.5	20.7
1952 [2]	335.0	77.4	50.7	4.9	21.8
1953 [2]	355.0	93.4	66.4	4.9	22.1
1954 [2]	370.0	97.0	69.5	4.5	23.0
1955 [2]	380.0	92.0	63.5	5.5	23.0
	Percentage distribution				
1950	100.0	15.9	6.6	2.2	7.0
1951	100.0	16.3	8.5	1.1	6.7
1952	100.0	23.1	15.1	1.5	6.5
1953	100.0	26.3	18.7	1.4	6.2
1954	100.0	26.2	18.8	1.2	6.2
1955	100.0	24.2	16.7	1.4	6.1

[1] Current prices.
[2] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV.

Source: Actuals, U. S. Department of Commerce; estimates, staff, Joint Committee on the Economic Report.

CHAPTER 3

BUSINESS

Total business investment including net foreign investment is estimated at $47.6 billion in fiscal 1953 compared to $53 billion in fiscal 1952 and $56.2 billion in fiscal 1951.

The Nation's ability to increase the amount of goods and services for civilian and military uses depends in large part on private business investment. The high rate of plant and equipment investment during recent years in this respect is gratifying.

It should be recognized, however, that business investment expenditures create inflationary pressures comparable, in the short run, to those resulting from Government defense expenditures. Postponement of less essential private investment, as well as restraint and efficiency in all private business spending, is important to economic stabilization.

Variations in business spending for plant, equipment and inventory are typically much larger proportionately than variations in activity in other segments of the economy. Thus, between 1948 and 1949, although gross national product in terms of constant dollars remained unchanged and purchases by both consumers and Government increased slightly, gross private domestic investment declined by $4.9 billion, or over 20 percent. Almost all of this decline was in inventories. Similarly, between 1949 and 1950, out of an increase of $10.8 billion, or almost 8 percent, in gross national product, about $7 billion, or 65 percent, was accounted for by an increase of almost 40 percent in gross private domestic investment.[1]

New Plant and Equipment Expenditures

In terms of June-July 1951 prices, expenditures on plant and equipment in fiscal 1953 are assumed to be about 8.7 percent below fiscal 1952 as compared with an increase of about 8.2 percent from fiscal 1951 to fiscal 1952.

Scarcities of materials and some types of skilled labor may be expected to reduce business spending for new plant and equipment. Increased taxes and credit controls are also dampening influences. This reduction in investment is expected to affect mainly nonessential nondefense enterprises, thus easing that portion of the inflationary pressures which business exerted on the economy in 1950, while at the same time making available supplies of construction materials and producers' durable equipment for expansion of capacity in such critical areas as steel, aluminum and electricity.

Over the next 18 months rising total output may be accompanied by increases in corporate profits before taxes. Because of the higher tax rates enacted by Congress since June 1950, increases in corporate profits after taxes are likely to be small. The stimulus to invest-

[1] Data from U. S. Department of Commerce, Office of Business Economics, *National Income, 1951 Edition, A Supplement to the Survey of Current Business*, pp. 141 and 146.

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ment from renewed increases in profits will be reenforced by the Government programs aiding new investment in needed productive capacity as well as by the expectation of long-term growth in demand created by the Nation's rapidly increasing population.

As a result, private investment in new plant and equipment during the remainder of fiscal year 1952 and through fiscal year 1953 will probably be limited more by availability of materials and allocations than by decisions of business firms to curtail spending programs. On the basis of present information and the assumptions of the preceding chapters, this would seem to mean in terms of constant June–July 1951 prices [2] a level of private investment in new plant and equipment 8.2 percent above fiscal year 1951 in fiscal year 1952 and about 8.7 percent below fiscal 1952 levels in fiscal 1953.

This pattern seems to be supported by the recent McGraw-Hill survey of business plans for capital expenditures.[3] According to this survey, business expects to spend 13 percent more in calendar 1952 than in calendar 1951 for new plant and equipment.

Inventories

Net increase in inventories may approximate $2.5 billion in fiscal 1953 compared with an estimated $4 billion in fiscal 1952 and $9.3 billion in fiscal 1951.

An examination of relationships between inventories and business sales, as well as the relationship between net changes in inventories and changes in gross national product, as measured by the Department of Commerce national income accounts, indicates that for the fiscal year 1952 the average net increase in business inventories may be approximately $4 billion compared to an average increase of about $9.3 billion in fiscal 1951. For the following year, fiscal 1953, the net increase in business inventories may be in the neighborhood of $2.5 billion.

TABLE X.—*Business spending: Gross private domestic investment plus net foreign investment, actual fiscal year 1951; estimated, 1952 and 1953*

[Billions of dollars; constant June–July 1951 prices [1]]

Item	1951 [2]	1952	1953
New private construction	23.8	20.7	20.0
Residential nonfarm [3]	14.7	10.9	10.3
Producers' plant [4]	9.1	9.8	9.7
Producers' durable equipment [5]	26.1	28.3	25.1
Net change in business inventories	+9.3	+4.0	+2.5
Total gross private domestic investment	59.2	53.0	47.6
Net foreign investment	−3.1	0	0
Total business spending	56.1	53.0	47.6

[1] For detailed explanation of this price level assumption, see footnote 1, table IV.
[2] Figures for fiscal 1951 will differ from those shown in table XVII due to the difference between the average fiscal year prices used in table XVII and the June–July 1951 prices used in this table.
[3] Includes residential nonfarm and all other private construction not classified as producers' plant.
[4] Includes industrial buildings, public utilities, gas- and oil-well drillings, warehouses, office and loft buildings, garages, and farm construction both residential and nonresidential.
[5] Includes all producers' durable equipment, both nonfarm and farm.

Source: Actual fiscal 1951, U. S. Department of Commerce. Adjustments of fiscal 1951 to June–July 1951 prices and estimates for fiscal 1952 and 1953, staff, Joint Committee on the Economic Report.

[2] For detailed explanation, see footnote 1, table IV, p. 50.
[3] See *Hearings, Joint Committee on the Economic Report on the President's January 1952 Economic Report*, p. 459.

Net Foreign Investment

Net foreign investment is assumed to be negligible in fiscal 1953.

Net foreign investment has been quite small in recent years so that possible errors in estimation would not seriously affect this analysis. In fiscal year 1951, net foreign investment amounted to a minus $3.1 billion in constant June–July 1951 prices [4] (equivalent to minus $2.1 billion in current prices); in the fiscal years 1952 and 1953 it is assumed to be about zero. More exact spelling out of the possible magnitude of net foreign investment would require a more extensive investigation than was undertaken by this staff. Such additional work did not seem worth while since the possible changes from the assumptions used would be unlikely to be large enough to significantly change the policy conclusions of this report.

Nonfarm Residential Construction

In constant prices the volume of nonfarm residential construction put in place in fiscal 1953 is assumed to decline about 5 percent from fiscal 1952 as compared to a decline of almost 26 percent between fiscal 1951 and 1952.

It now appears that restrictions on residential construction will be continued at least through 1952. Thus the volume of new nonfarm residential construction put in place, which increased about 13 percent between fiscal 1950 and fiscal 1951, may decline by about 26 percent between fiscal years 1951 and 1952 and by about 5 percent between fiscal years 1952 and 1953. These estimates have been made in terms of the value of nonfarm residential construction put in place priced at June–July 1951 levels.[4] The estimates seem consistent with official forecasts of housing starts of about 800,000 units during calendar 1952.

Financing

Business spending for fiscal 1953 is assumed to be financed largely out of retained corporate profits of $10.2 billion and annual depreciation reserves of $26 billion.

For the fiscal year 1951 corporate profits after inventory valuation adjustment amounted to $41.4 billion; for the fiscal year 1952 they are estimated at $43 billion; and for fiscal 1953 at $48 billion. The increase over the next 18 months makes allowance for the effects of increased volume of business. Out of these profits corporations are assumed to pay $9 billion in dividends in fiscal 1953 plus Federal and State income taxes. This should leave corporations a total of $10.2 billion in retained profits.

Additional sources of corporation financing include depreciation funds, net new issues, loans, etc. Total absorption of outside funds by corporations plus investments by unincorporated business are expected to approximate $12.7 billion in fiscal 1953 compared to $21.4 billion in fiscal 1952 and $29 billion in fiscal 1951.

[4] For detailed explanation, see footnote 1, table IV, p. 50.

Business Structure

Periods of high military spending are particularly favorable to large-scale enterprises and to well-established concerns. This creates problems as to how to attain maximum use of resources and maintain competition through a continued creation of new and growing enterprises.

In trying to plan a sustainable long-term program of defense mobilization, attention has to be given to the peculiar problems that arise out of possible unfavorable distortions or dislocations of the business structure.[5] Wars and periods of heavy defense spending are generally believed to be more favorable to large-scale enterprises than to small firms. In both World War II and the present defense-mobilization period Congress has made special provision for helping small business under such conditions and has set up committees to study the problems of the small entrepreneur.

The newly created Small Defense Plants Administration is designed to facilitate further contributions to the defense effort by relatively small firms. The principal method used thus far involves RFC loans to small business upon recommendation of this new agency. Provision has also been made for the representation of small firms in computing material requirements. Special emphasis has been placed on subcontracting by the Departments of Defense and Commerce through "prime contractor-subcontractor clinics," "on-the-spot" industry-assistance programs, and armed services procurement reviews. These are being pursued so as to help small business obtain prime contracts and subcontracts that it can handle.[6]

Military procurement is comparable to peacetime capital investment rather than consumption. At least this is true of military expenditures for heavy equipment such as tanks, planes, artillery, ships, etc., the so-called "hardware" of war. The small entrepreneur can produce many smaller or less complex items for the armed services, either directly or through subcontracts. In addition there are well-established channels in some lines of business through which small firms participate along with the larger enterprises. In fact, in some fields the small firm is the dominant economic unit.

A quite different situation arises with heavy equipment which requires relatively large capital investment in plant and equipment. A long leadtime elapses from the beginning of the preparations to the beginning of the deliveries. Even after the equipment has been designed there still remains the question of production engineering; that is, adapting the product to mass production, designing the equipment to produce it, and then laying out the plant and equipment to do the producing. After this, plant and equipment must be set up, labor forces trained, inventories accumulated, and test runs made. Finally, the product can get into production. In this process much of the plant needed is of such character and magnitude that the minimum size of operation is still relatively large. All these factors mean that a prime contractor will usually have to be a relatively large enterprise, with a large and well-trained engineering staff. Thus basic technical

[5] Recent attention to this problem and the associated need for adequate programing and scheduling of military procurements has also been given in *Third Report of the Attorney General of the United States* prepared pursuant to section 708 (e) of the Defense Production Act of 1950, December 19, 1951, pp. 4 and 9.

[6] *The Battle for Production*, Fourth Quarterly Report to the President by the Director of Defense Mobilization, January 1, 1952, p. 25.

factors in the production of military "hardware" tend to favor the large unit at the expense of the small unit. It should be noted, however, that a size of enterprise which is large in one industry may be small in another, and vice versa. Size in the sense used here is a relative term related to the economic characteristics of each industry.

Moreover, the graver the defense emergency the more important becomes the problem of shortening the lag between the decision of the military to produce a certain piece of equipment and the time at which a contract is let, and then, finally, the time at which the deliveries are made under the contract. With limited procurement facilities and pressure to speed deliveries there is a tendency to speed up production by concentrating contracts among a smaller number of prime producers and to depend on the prime contractors to handle the negotiations with the smaller firms.

A further problem in this regard is that there may not always be a close correspondence between available skilled labor supply and the location of small as compared to large business. The unemployed skilled labor supply may be in a geographic area in which either large units or small units predominate. If all of this skilled labor is to be utilized efficiently it must be employed by the units located in the area. Attempts to get production through a geographic shift either of the enterprise or of all the labor supply in order to enable the small units to handle the contracts (in cases when large units predominate in the geographic area of labor surplus) might not only delay procurement but prove futile.

Allied with these problems is the question of procurement organization. The relatively large unit is better equipped to handle negotiations and meet requirements of the Defense Establishment than the relatively small enterprises that may not have the diversely trained personnel. This can be overcome, in part, through proper organization of the procurement system or through special Government agencies to aid small businesses in obtaining the kinds of contracts which they are set up to handle. However, many types of military procurement can be efficiently handled only through making use of the engineering staffs of large enterprises. This is especially true in a period in which engineering and technical personnel is scarce relative to requirements. In this case, proper organization of procurement to encourage subcontracting is of great importance in preserving small business and in attaining maximum output through full utilization of all facilities available.

Subcontracts should be especially aimed toward those peacetime small enterprises that normally produce goods which may have a close military equivalent and whose productive process is quite flexible. Small metalworking firms are examples.

The net result of these characteristics of the defense program is to put pressure upon business structure in favor of relatively large-scale units. Thus widespread concern has been voiced, both in World War II and at the present time, that military requirements may lead to an increase in the proportion of the economy controlled by large units and, hence, to a suppression of competition. If the period of maximum mobilization activity is relatively short, concern over the suppression of competition is likely to be unfounded. The first effect of the shift from peacetime to military production is to create additional competition for war contracts, that is, to get needed output quickly. On the other hand, such concern over the fate of competition may be well founded if high mobilization expenditures are continued over a long period and if effective efforts are not made to spread defense projects directly or indirectly among numerous firms. In this case military procurement operations may result in a reduction in the number of business units over such a long period as to impair competition. This could occur either through the creation of monopolies; through the creation of barriers to the entry of new firms into industries; or through the creation of cooperative interconnections between the remaining relatively large scale units that reduce competition.

Therefore, both military procurement practices and material control regulations should be carried out so as to insure the maintenance of a healthy state of competition in the economy.[7] Wherever possible, effort should be made to create conditions favorable to the entry of additional firms.

In calling attention to the limitations imposed on small business by a defense economy, the economics and the statistics of the situation should be viewed with caution. It is all too easy to point to the large reduction in the number of firms during World War II. An examination of the statistics indicates, however, that a large proportion of the firms that disappeared were marginal retailing and nondefense operations whose proprietors could make more money working in defense plants than in risking their capital in their own business or else represent cases where owners were drafted. Both the owners and the defense economy were better off when they worked in a war plant rather than at lower pay, and with considerable risk of capital, in a marginal nonessential retail or manufacturing unit. The major reduction in the number of businesses, however, was due to a decline in the number of new businesses formed. Bankruptcies declined to very low levels. In addition, as soon as wartime pressures were relaxed, there was an increase in the number of new enterprises started. The studies of the Department of Commerce show a restoration in the postwar period of the relationship of the number of business units to the total output of the economy.[8]

Better statistical information is needed to make possible analysis of the effects of mobilization on business structure. The quarterly series on the financial condition of manufacturing firms, showing costs and profits for large, middle-size, and small companies, is essential to an analysis of economic trends. It helps to show the impact of policies on materials limitations, tax rates, price fixing, and other forces. More current information of the same kind on other lines of economic activity are needed. It would be desirable to have data not only on changes in profits by size of firm but also on whether the number of small businesses is changing because of voluntary discontinuances, or forced closings, or because of a reduction in new entries. At the present time statistics permit economists only to point out that different types of cases do exist and some means must be found for distinguishing between them so that programs may be designed to maintain a healthy and vigorous state of competition.

[7] Also see *Third Report of the Attorney General of the United States* op. cit., pp. 12 and 18–19.
[8] See "Industrial Patterns of the Business Population", *Survey of Current Business*, May 1948.

CHAPTER 4

CONSUMERS

The budget implies consumer supply of about $214 billion in fiscal 1953 at June-July 1951 prices. Disposable personal income for fiscal 1953 is assumed to be $237 billion, and personal savings about $18 billion.

In an economy in which we strive to provide as soon as possible "guns plus butter," careful attention must be given to the balance between the supply of and demand for consumer goods. If, in order to meet defense production and plant expansion goals, the supply of consumer goods is curtailed to less than consumers desire and have incomes sufficient to purchase, an inflationary excess of consumer demand develops and provides a means for inflationary increases in prices. One of the national objectives is to prevent such an eventuality.

Consumer Goods and Services

The per capita real consumption of goods and services increased about 38 percent from calendar 1939 to fiscal 1951. A slight decline of 2.2 percent is estimated from fiscal 1951 to fiscal 1952, and in fiscal 1953 the supply is likely to be about 1.8 percent above fiscal 1952.

Between 1939 and 1944 consumers were able to increase their purchases of consumer goods and services from $67.5 billion to $111.6 billion. Of this 65 percent increase, over two-thirds was accounted for by price increases. The increase in real consumption (goods and services in constant dollars) was about 20 percent. Due to population growth, the increase in per capita real consumption was even smaller—about 14 percent. Personal consumption increased rapidly after the war to $193.6 billion by 1950. Although a large part of the increase over 1939 was due to price increases, the increase from 1939 to fiscal 1951 in real consumption was about 61 percent. On a per capita basis this increase in real consumption was about 38 percent.

On the basis of the assumptions made in previous chapters as to total output and the demands of Government and business, it is apparent that the total supply of consumer goods can increase between fiscal 1952 and 1953 by only about 3.6 percent. On a per capita basis the real supply in fiscal 1953 would be about 1.8 percent higher than in fiscal 1952. Declines would be concentrated in consumers' durables where materials would be diverted to plant expansion and military production. On the other hand, nondurable goods and services could show modest increases.

Consumer Incomes

In terms of June-July 1951 prices, total disposable personal income is estimated to rise due to expansion in output from about $222 billion in fiscal 1951 to about $228 billion in fiscal 1952 and about $237 billion in fiscal 1953. The per capita real disposable personal income is estimated at about $1,465 in fiscal 1952 while in fiscal 1953 a rise of 2.1 percent to $1,496 is estimated.

Expansion in output carries with it an expansion in employment and hence an expansion in personal incomes through wages, profits, and proprietors' incomes. On the other hand, two substantial increases in personal income taxes enacted in 1950 and 1951 offset part of the income increases. Price increases have also offset part of the rise in money incomes. For these reasons the real purchasing power of consumer incomes has not kept pace with the rise in money incomes.

Per capita real disposable personal income was about the same in 1939 as in 1929.[1] By 1944 there had been an increase of about 45 percent over 1939. During the postwar years the average was slightly less than in 1944 so that for the fiscal year 1951 it was about $1,450 per capita in terms of June–July 1951 prices compared to $1,475 for calendar 1944. About $1,465 per capita is expected for fiscal 1952. An increase to $1,496 per capita, or about 2.1 percent, may be realized in fiscal 1953. (See table XI, p. 69.)

The largest single source of personal income is, of course, through wages, salaries and other labor income. Continually rising employment over the fiscal years 1952 and 1953, including pay for the expanded armed services, will result in further increases in total personal inome. However, the increase will be offset in part by the effect of increased taxes, indicated above. As a result, total disposable personal income, which was about $215.2 billion in fiscal year 1951, is assumed to be about $228 billion for fiscal year 1952 and about $237 billion for fiscal year 1953 at current tax rates. The estimates for 1952 and 1953 are in terms of June–July 1951 prices.[2] Composition of personal income by source is given in table XII, page 69.

Income, Expenditures, and Savings

The rate of savings for fiscal 1953 is conservatively estimated at 7.5 percent of disposable personal income

One question is of chief interest in fiscal year 1953 for which personal income after taxes of about $237 billion is estimated: How much of this income will consumers save and how much will they attempt to spend? To a considerable extent, consumers' savings as a net aggregate figure for all consumers are largely unplanned; that is, regardless of what individual consumers plan to save and to spend out of their income, aggregate savings, except for such contractual savings items as insurance, debt retirement, and the like, are likely to depend on unforeseen economic events. Although consumers may have in mind saving some normal proportion of their income, they are likely

[1] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV, p. 50.
[2] For detailed explanation, see footnote 1, table IV, p. 50.

to actually save a different proportion.[3] Attempts to derive exact formulas for the relation between savings and disposable personal income applicable to the current period have so far had only partial success. Therefore, the staff has made the best judgment it could with the advice of other technicians as to the approximate magnitude that should be assumed and which would carry the least policy risk if the assumption proves wrong.

TABLE XI.—*Per capita disposable personal income, actual calendar years 1929–50 and fiscal years 1950 and 1951; estimated fiscal years 1952 and 1953*

[In dollars]

Period	Current prices	Constant prices [1]	Period	Current prices	Constant prices [1]
Calendar 1929	678	1,023	Calendar 1949	1,250	1,362
1933	360	759	1950	1,347	1,444
1939	536	1,019	Fiscal 1950	1,272	1,378
1944	1,062	1,475	1951	1,406	1,450
1947	1,176	1,333	1952	[1] 1,465	1,465
1948	1,285	1,382	1953	[1] 1,496	1,496

[1] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV.

Source: Actuals in current prices; calendar years 1929–50, Council of Economic Advisers, *1951 Midyear Report of the President.* Estimates in constant prices and fiscal years 1950 and 1951 actual prices, staff, Joint Committee on the Economic Report.

TABLE XII.—*Total personal income by source, tax and nontax payments, and disposable personal income, actual calendar years 1929–50 and fiscal years 1950 and 1951; estimated fiscal years 1952 and 1953.*

[Billions of dollars]

Years	Wages and salaries	Other labor income	Proprietors' and rental income	Dividends	Personal interest income	Transfer payments	Total personal income	Less tax and nontax payments	Disposable personal income
Calendar—									
1929	50.0	0.5	19.8	5.8	7.5	1.5	85.1	2.6	82.5
1933	28.7	.4	7.2	2.0	6.2	2.1	46.6	1.4	45.2
1939	45.2	.5	14.7	3.8	5.4	3.0	72.6	2.4	70.2
1944	114.9	1.3	35.5	4.7	5.9	3.6	165.9	18.9	147.0
1947	119.9	2.4	42.4	6.6	7.9	11.8	191.0	21.5	169.5
1948	132.1	2.8	47.3	7.2	8.8	11.3	209.5	21.1	188.4
1949	131.2	3.0	41.4	7.6	9.5	12.4	205.1	18.7	186.4
1950	142.9	3.5	44.0	9.1	10.1	15.1	224.7	20.4	204.3
Fiscal—									
1950	133.1	3.1	41.0	7.9	9.7	15.5	210.3	19.0	191.3
1951 [1]	156.6	3.7	47.4	9.7	10.3	12.2	239.9	24.7	215.2
1952 [2]	171.9	4.0	50.3	9.1	10.9	12.8	259.0	31.0	228.0
1953 [2]	181.7	4.3	52.0	9.0	11.4	12.6	271.0	34.0	237.0

[1] Current prices.
[2] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV.

Source: Actuals, U. S. Department of Commerce; estimates, staff, Joint Committee on the Economic Report.

[3] For changes in consumer spending and savings attitudes between June 1951 and November 1951, see *Preliminary Results of November 1951 Survey on Attitudes Toward Inflation,* Survey Research Center, University of Michigan, December 12, 1951.

TABLE XIII.—*Disposable personal income, consumer expenditures and savings, actual calendar years 1929–50 and fiscal years 1950 and 1951; estimated fiscal years 1952 and 1953*

[Billions of dollars]

Year	Disposable personal income	Personal consumption expenditures: Total	Durable commodities	Nondurable commodities	Services	Savings
Calendar—						
1929	82.5	78.8	9.4	37.7	31.7	3.7
1933	45.2	46.4	3.5	22.3	20.6	−1.2
1939	70.2	67.5	6.7	35.3	25.5	2.7
1944	147.0	111.6	7.1	67.1	37.4	35.4
1947	169.5	165.6	21.4	95.1	49.1	3.9
1948	188.4	177.9	22.9	100.9	54.1	10.5
1949	186.4	180.2	23.9	98.7	57.6	6.2
1950	204.3	193.6	29.2	102.3	62.1	10.7
Fiscal—						
1950	191.3	183.9	25.6	98.7	59.6	7.4
1951	215.2	202.7	30.3	107.9	64.5	12.5
1952 [1]	[2] 228.0	[2] 204.6	25.0	112.6	67.0	[2] 21.5
1953 [1]	[3] 237.0	[3] 214.0	26.0	118.0	70.0	[3] 18.0

[1] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV.
[2] $1.9 billion not accounted for shows up in table XV as consumer excess inflationary demand.
[3] $5 billion not accounted for shows up in table XV as consumer excess inflationary demand.

Source: Actuals, U. S. Department of Commerce; estimates, staff, Joint Committee on the Economic Report.

On the assumption that savings would be about 7.5 percent of disposable personal income in fiscal 1953, the relationship between personal income, disposable income, expenditures, and savings would work out about as given in table XIII,[4] page 70.

Structural Changes in the Distribution of Income and Savings

The distribution of income among families and individuals has been more equal throughout the postwar period than during any immediate prewar year. This movement toward equality cannot be expected to continue indefinitely at the same rate due to the changed nature of the low-income problem.

The distribution of income among families and individuals has changed since 1941. (See table XIV, p. 71.) In 1950 about 26 percent of the Nation's families and individuals received no more than $2,000 annually in money income. This 26 percent divided between them only 7 percent of the aggregate money in the country. In contrast, in 1941 about 41 percent received less than $1,207, or the equivalent in purchasing power of $2,000 in 1950.

Because of the increase in price level since the end of the war, many families, although now in higher income brackets, are relatively no better off than in 1941. Those whose incomes are less than $2,000 today are undoubtedly in worse financial shape than those whose prewar incomes were in this bracket. Fixed-income families in these and other income groups are worse off than prewar. Despite these exceptions, however, the standard of living of families in general has increased considerably since prewar. In real terms consumers in

[4] Reliable information on the consumer market is limited. The Government now provides a number of series on consumer expenditures and consumer credit, but a consistent integrated set of data to tell promptly and reliably what consumer incomes are, how they are spent at each income level, what their savings are and just who pays the taxes is lacking.

1950 were enjoying on the average about 39 percent more goods and services per capita than in 1939. Moreover, available evidence indicates that the distribution of aggregate money income was more equal during the postwar period than in the immediate prewar years. That is, a more abundant supply of goods and services was more widely distributed among the population.

This more equal distribution can be attributed chiefly to the high employment levels which have been maintained almost consistently through the postwar years and to the higher cash incomes of the farm population. Also, the increases in income taxes with progressive rate structures have tended to affect higher income brackets more than lower ones, so that incomes become more equalized as regards "after tax" purchasing power. Since these conditions are expected to continue to prevail during the defense build-up period, the question becomes: How will a limited supply of consumer goods affect the real standard of living of families?

Expressed in June to July 1951 prices,[5] per capita personal consumption expenditures in fiscal 1951 exceeded those made in 1944 by 21 percent but in fiscal 1952 will exceed 1944 expenditures by about only 19 percent. In fiscal 1953, supplies will be adequate to permit consumers, on the average, to increase their per capita consumption about 1.8 percent over fiscal 1952.

TABLE XIV.—*Percent distribution of families and individuals and aggregate money income before taxes, by total money income level, for the United States, calendar years 1950 and 1941*

[1941 classifications have the same purchasing power as the corresponding 1950 classifications]

1950			1941		
Money income before taxes	Percent of families	Percent of income	Money income before taxes	Percent of families	Percent of income
Under $1,000	11	1	Under $603	20	4
$1,000 to $1,999	15	6	$603 to $1,207	21	9
$2,000 to $2,999	16	10	$1,208 to $1,810	19	15
$3,000 to $3,999	18	16	$1,811 to $2,413	15	17
$4,000 to $4,999	13	14	$2,414 to $3,017	11	15
$5,000 to $7,499	18	26	$3,018 to $4,525	9	16
$7,500 and over	9	27	$4,526 and over	5	24
Total	100	100	Total	100	100

Source: 1950 data from *1951 Survey of Consumer Finances*, pt. III, Distribution of Consumer Income in 1950, Board of Governors, Federal Reserve System. See: Federal Reserve Bulletin, August 1951.

1941 data: J. A. Pechman, "Distribution of Income Before and After Federal Income Tax, 1941 and 1947," Appendix A, *Studies in Income and Wealth*, volume 13, National Bureau of Economic Research, New York: 1951. Money income levels for 1941 deflated by Department of Commerce 1950 index for personal consumption expenditures. See: U. S. Department of Commerce, *National Income, 1951 edition, A Supplement to the Survey of Current Business*.

These averages, however, conceal the effect on the lower-income groups of a constantly rising price level. During the war and postwar years families rose to higher income levels as the hitherto unemployed or intermittently employed breadwinner and other members of the family were able to obtain regular work. Contrary to prewar conditions the bulk of the families who now make up the under $2,000 group, to select an arbitrary line of demarcation, owe their financial situation to permanent rather than temporary causes.

[5] For detailed information, see footnote 1, table IV, p. 50.

The majority of the present low-income families are headed by retired persons, housewives, and farm operators. (See chart IV, p.73.) The low-income farm group would probably be the least adversely affected by further inflation since the majority raise a substantial portion of their own food which for low-income families is the most important expenditure. Other low-income families headed by retired persons and housewives would suffer a further decrease in their standard of living during an inflationary period. For the most part, these families are dependent upon past savings, workmen's compensation, public aid, and pensions.

To the extent that families and individuals now remaining in the low-income group contain workers within the usual working ages, the problem is largely one of finding ways to increase their output per hour of work so that their incomes can be raised. Some of these suffer from physical or family circumstances which would prevent full-time, normal work. In many cases, however, the low incomes are the result of low investment per worker. This low investment may consist of low amounts of plant and equipment per worker, such as an inadequate farm, or it may be inadequate social investment in education, training, and health services over a long period of years. This latter factor means that in all too many cases substantial numbers of the labor force have education and training which would have been adequate in an earlier and simpler day, but which does not equip them for full participation in the present highly technical economy.

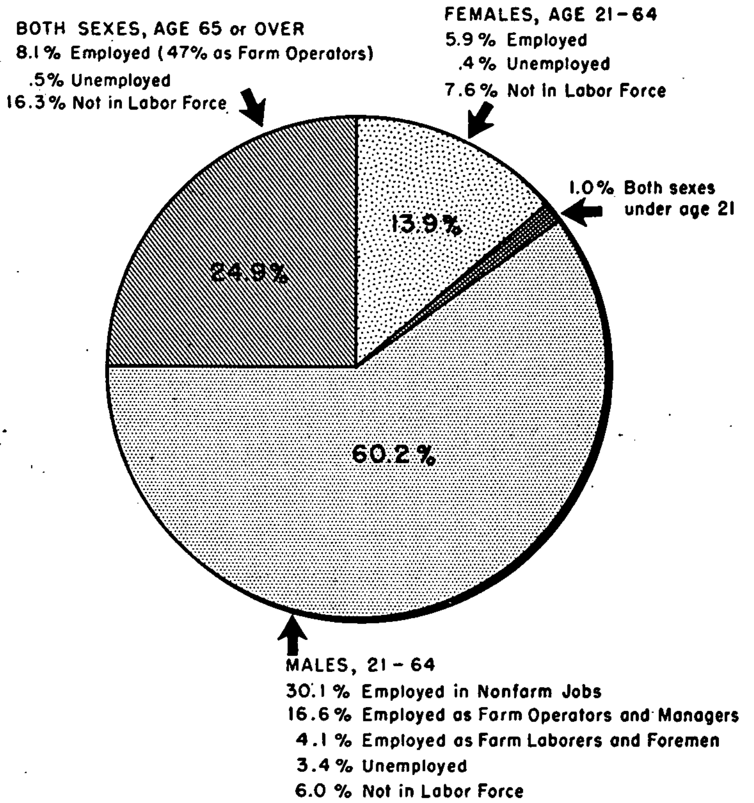
As is pointed out elsewhere in this report, the rapid changes in technology of recent decades have created a situation in which there is a danger that our labor force will not have the training and education necessary to operate and maintain our technological system. To the extent that appreciable numbers of our families have such low incomes that education and training necessary under modern conditions of technology cannot be obtained, the Nation is being deprived of output which it might otherwise produce. There is therefore a necessity for programs and research aimed at finding ways of increasing: (1) The amount of plant and equipment per worker among those of our labor force having a low output per man-hour; and (2) the social investment in education, training, and community services which are essential to producing a labor force capable of high output per man-hour under modern conditions.

Since physical or family circumstances in many cases, nevertheless, preclude present participation in the labor force, many of the existing low-income families can expect lower standards of living, loss of their small savings, and a reduction in the value of fixed incomes, if further inflation of the price level continues.

Chart IV

DISTRIBUTION OF FAMILIES OF TWO OR MORE PERSONS WITH MONEY INCOMES OF LESS THAN $2,000 IN 1948

By Age, Sex, and Employment Status of Family Head in April 1949 for the United States



SOURCE: Staff, Joint Committee on the Economic Report and the Bureau of the Census

CHAPTER 5

SYNTHESIS OF ECONOMIC PROJECTIONS

Potential inflationary excess consumer demand in fiscal 1953 may be about $5 billion. The "cost-push" mechanisms and spending of new or accumulated liquid assets could aggravate this inflationary excess consumer demand and drive prices upwards.

Previous chapters reviewed possible developments in the various sectors of the economy—Government, business, and consumers—as well as possible total levels of output that could be attained with prospective plant, equipment, materials, labor force and levels of efficiency. Are these programs and possibilities consistent with one another and in balance? Or are there inconsistencies that render doubtful the attainment of all the objectives simultaneously under expected conditions and present policies?

The major question arises in the consumer sector of the economy: Will consumer supplies be sufficient to satisfy effective consumer demand, or will there be an excess demand which will feed a further inflationary price rise? The potentialities of the situation are summarized in table XV, page 76, the estimates for which are drawn from the preceding chapters.

For the fiscal year 1952 excess consumer demand over consumer supply appears to be about $1.9 billion on the basis of the President's estimates of Federal receipts and expenditures. This implies that the rapid increase in prices during fiscal 1951, the increase in taxes under the Revenue Acts of 1950 and 1951, the additional direct controls, and private restraint leading to sharply higher savings brought about economic balance in the early part of fiscal 1952. By the latter half of this fiscal year there is at least the possibility that there will be some slight inflationary excess of demand over supply, if the estimates of Federal receipts and expenditures in the President's budget turn out to be correct. This would be particularly true if the recent exceptional rate of savings were to decline; or, alternately, if wage rates were increased without corresponding offsets through increased personal savings, increased taxes, increases in consumer supplies, or narrowing of profit margins.

TABLE XV.—*Estimated excess consumer inflationary demand on the basis of existing tax program, fiscal years 1952 and 1953*

[Billions of dollars]

Description	1952 [1]	1953 [1]
Gross national product	335.0	355.0
Less:		
Capital-consumption allowances	24.0	26.0
Indirect business tax and nontax liability	26.5	28.1
Business transfer payments	.8	.8
Plus:		
Subsidies less current surplus of Government enterprise minus statistical discrepancy	+0.3	+0.5
Equals: National income	284.0	300.6
Less:		
Corporate profits and inventory valuation adjustment	43.0	48.0
Contributions for social insurance	8.8	8.7
Excess of wage accruals over disbursements	0	0
Plus:		
Government transfer payments	12.0	11.8
Net interest paid by Government	4.9	5.5
Dividends	9.1	9.0
Business transfer payments	.8	.8
Equals: Personal income	259.0	271.0
Less:		
Personal tax and nontax payments	31.0	34.0
Federal	27.9	30.8
State and local	3.1	3.2
Equals: Disposable personal income	228.0	237.0
Less: Personal savings	21.5	18.0
Equals: Consumer demand	206.5	219.0
Supply:		
Expenditures for gross national product	335.0	355.0
Less:		
Gross private investment	53.0	47.6
Federal Government purchases of goods and services	55.6	71.3
State and local government purchases of goods and services	21.8	22.1
Equals: Consumer supply	204.6	214.0
Consumer excess inflationary demand; excess of consumer demand over supply	[2] +1.9	[2] +5.0

[1] Constant June–July 1951 prices. For detailed explanation, see footnote 1, Table IV.
[2] Methods for removing the inflationary excess demand are indicated in Table XVII. These consumer excess inflationary demands are measured in constant June–July 1951 prices. To the extent that prices rise above this level, as in fact they have so far this fiscal year by about 1 percent, the excess demand would be larger, when measured by the difference between monetary demand in current prices and supply in prices existing at the beginning of the period. The policy conclusions are unaffected by the method of measurement in this instance.

Source: Staff, Joint Committee on the Economic Report.

For the fiscal year 1953 the possible consumer inflationary pressure would be about $5 billion, or about 2.3 percent of the estimated consumer demand. This would reflect, in part, an excess of cash expenditures over receipts in the Federal budget and, in part, the fact that rising military requirements for scarce materials reduce supplies of durable consumer goods.

This excess demand assumes a rate of savings of about 7.5 percent in fiscal 1953 compared to 5.8 percent in fiscal 1951 and 9.4 percent in fiscal 1952. It is widely believed that curtailments of supplies of durable goods, combined with credit controls, would induce such a savings rate under the budget assumptions. It should be noted, however, that a price-wage spiral might develop if these primary inflationary pressures are allowed to result in price rises. Such a spiral would be intensified by a possible flight from liquid assets to physical assets.

As has already been pointed out, wholesale prices declined after February 1951 but began to show signs of stability or even slight rises in the autumn. From the foregoing analysis it would appear that if the Federal budget reached $85.4 billion in fiscal 1953 there would be further upward pressure upon prices. Price increases might not be as great as occurred in the 8 months following June 1950. On the basis of past experience this upward pressure on prices would result in larger increases in wholesale prices than in retail prices. During the period of wholesale price declines in 1951, consumer prices remained stable on the average or rose slightly. The magnitude of price changes cannot be foreseen with precision but it appears possible that both at retail and wholesale levels the prospective price changes would be more moderate than during fiscal 1951.

It should be emphasized that if a further spiral of wage increases accompanied by price increases were allowed to develop, inflationary forces would be greater than these tables indicate.

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PART II—POLICIES AND PROGRAMS FOR ECONOMIC STABILIZATION AND GROWTH

CHAPTER 6

THE FEDERAL GOVERNMENT

Economic stabilization and growth could be encouraged in fiscal 1953 by one or a combination of these alternative policies: (1) accept the President's program; or (2) reduce expenditures mainly in the major national security category; or (3) rely on a high rate of consumer savings.

From the analysis of Part I it is possible to draw certain conclusions as to desirable Federal policies and programs in order better to insure economic stabilization and growth.

For the present fiscal year (1952) the inflationary excess demand roughly measured at $1.9 billion is not likely to develop because reports for the first 7 months of the fiscal year indicate that Federal expenditures are likely to fall below the President's estimate of $70.9 billion by about $1.9 billion. This would mean administrative budget receipts of $62.7 billion and administrative budget expenditures of $69 billion, while the cash budget deficit, because of accumulations in trust accounts, would be about $2 billion.

The estimates in this report imply an excess consumer demand of at least $5 billion for fiscal 1953 as shown in chapter 5. This excess demand might be neutralized by any one or a combination of three types of policies:

1. The President's recommendations could be followed. This would involve budget expenditures in fiscal 1953 of $85.4 billion combined with: (1) additional tax revenues to reach the President's tax recommendations of 1951—roughly $5 billion; (2) a strengthening of the provisions of the Defense Production Act relating to control of prices, wages and credit; (3) the authorization of margin control for trading on commodity exchanges; and (4) additional powers for the Board of Governors of the Federal Reserve System to impose additional bank reserve requirements.[1]

2. Federal expenditures might be reduced by $5 billion below estimates in fiscal 1953 as a result of direct congressional action mostly in major national security programs or of failure of military production to meet the President's estimates. Such reductions would reduce inflationary pressures by making approximately equivalent amounts of goods and services available to consumers. Such reductions would involve military risk considerations which must be weighed against the economic benefits involved.

[1] See *The Economic Report of the President*, January 1952, p. 25.

3. If expenditures are not reduced or taxes raised, then prevention of inflation would rest almost entirely upon individual consumers. The excess demand would not appear if consumers maintain a high rate of personal savings amounting to 10 percent of disposable personal income.

Obviously there is also the possibility of some combination of these alternative policies. The policies and programs to carry out the alternatives fall into three categories: fiscal, monetary, and regulatory (including direct price, wage, etc. controls).

Fiscal Policy

The economic forces are likely to be on the inflationary side so that the question of suitable fiscal policy is largely one of how much tax revenues can be raised and of how low expenditures can be held.

The impact of Federal fiscal policy upon economic stability and production cannot be avoided. This places upon Government the responsibility of using this tool to the best possible advantage. The high level of defense expenditures expected during the next years makes the control of expenditures doubly important. It is imperative not only that nondefense expenditures be reduced wherever possible but that the maximum effective defense be obtained from every dollar of expenditure.

Principles of expenditure reduction.—In the short-run, it is difficult for the Congress to alter the rate or the amount of Federal expenditures. The soundest approach to budget balancing by way of reducing outgo seems to lie in the development and acceptance of principles to be used as each program and item of the budget is reviewed. The following have been formulated as *illustrative* of the attack by way of principles.

1. Consideration should be given to putting direct Government services as nearly as possible on a fee basis adequate to cover the costs. Where the beneficiary of Government services can be identified more or less precisely—that is, where the personal nature of the services predominates above the social interest—this is often possible. Most obvious, and incidentally a proposal upon which many observers agree, is the desirability of reducing the postal deficit. Even with the changes in the postal rates recently enacted, the postal deficit for 1952 is likely to be some $800 million.

Similar fee-basis considerations apply at other points throughout the Government budget. The possibilities in this field have been noted previously by the Committee Staff.[2] At the request of Congress, the Bureau of the Budget is currently seeking information from the various agencies of Government to determine how far the self-sustaining principle may be extended.

2. So far as possible, efforts should be made to avoid increasing Government expenditures in directions in which private enterprise may render the services equally well with no more than Government sponsorship and encouragement. The place of the Federal Govern-

[2] Joint Committee on the Economic Report, *Inflation Still a Danger*, 82d Cong., 1st sess., S. Rept. 644, p. 25.

ment in lending or supplying capital to private business is a case in point. Studies of the Investment Subcommittee of the Joint Committee on the Economic Report substantiated evidence from many sources that devices facilitating the flow of private equity capital to small business would do much to advance the interests of small business and economic stability without use of Government funds for direct loans or guaranties. The encouragement of new channels such as the proposed regional system of capital banks is one way in which the Government with a minimum of expenditures may aid private sources to satisfy a need which, if neglected, would result in an additional burden on the Government budget. Several State governments, New Hampshire and Maine specifically, have recognized this need by passing enabling legislation which has already encouraged private capital in establishing specialized lending institutions. The Industrial Development Bank of Canada is another attempt on the part of a government to encourage private capital to meet more fully the demands of small private businesses. The possibilities of keeping down the size of Government by enabling and encouraging aggressive private business to do the job required is almost unlimited.

3. Assistance grants to the States for public aid, highways, etc., should not become so rigid or so bound by advance planning that they can be varied only by progressive changes upward, regardless of economic conditions or needs. In this connection, attention is called to the comment of the Joint Committee on the Economic Report in its annual report 3 years ago on the January 1949 Economic Report of the President. At that time the committee stated:

> It appears desirable that, at least as a first line of defense, some of our regular grants-in-aid programs should provide a certain degree of flexibility. This could be accomplished by provisions in suitable grants-in-aid legislation that would permit an increase in the Federal share during times of adverse economic conditions and a decrease in times of favorable economic conditions. The ability to make these adjustments promptly is an important stabilization tool, and in keeping with the objectives of the Employment Act of 1946. It might operate with noticeably beneficial results in the case of aid to slum-clearance and urban-redevelopment programs.[3]

4. To the extent possible, desirable and necessary new demands for expenditures should be tied to reduction or shifting of costs in the same or other general areas of activity. Many new channels of expenditures are called for, the merits of which must be constantly weighed against the needs for continuing old programs. Agricultural policies, for example, might be reexamined to determine if desirable new expenditures for expanding agricultural production might not be financed out of savings in programs begun under different circumstances. A recent staff report prepared for this committee, *Underemployment of Rural Families*, indicated that certain expenditures to increase the productivity of underemployed farm families might under present conditions actually prove anti-inflationary. Any measures which can be taken to improve farm management practices or to raise marginal or underemployed labor to higher levels of productivity may well result in substantial increases in the total national output and effectively add to the available labor force.

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[3] *Report of the Joint Committee on the Economic Report on the Economic Report of the President, January 1949*, 81st Cong., 1st sess., S. Rept. 88, p. 38.

5. Budget economy cannot be successfully met by the indiscriminate curtailing of what may be called the "overhead" or normal expenses of Government. The Government must continue to perform its accepted functions in such areas as (*a*) its general regulatory activities such as the restraint of monopolistic tendencies in business; (*b*) gathering of statistics upon which intelligent understanding and programing are based; and (*c*) the pursuit of research where the benefits are too generalized to be privately financed. Relatively small savings accruing from the abandonment of statistical series or from curtailing regulatory functions are almost certain to prove illusory. The Joint Committee on the Economic Report, charged by law with an important role in maintaining economic stability, has repeatedly stressed the dangers of inadequate information on what is taking place in the Nation's economy.

Assurance that the Government is getting the utmost out of each dollar of expenditure is as sure a way to economy as outright budget-cutting. When expenditures on programs designed to spur economic recovery in bad times give way to considered expenditures for increasing national output in boom periods, the effect, paradoxical as it may seem, may even be anti-inflationary. Government expenditures which tend to increase production, assuring the better use of human and natural resources by adding to the national product, may be more anti-inflationary than inflationary.

It should be remembered, however, that major economies in the Federal budget will probably have to come in the defense area. As the Council of Economic Advisers points out:

> However, the nondefense areas do not contain the "fat" often attributed to them. Federal expenditures for all programs except national security, veterans' benefits, and interest on the national debt will be about 65 percent higher in the current fiscal year than in the fiscal year 1940. In comparison, the index of wholesale commodity prices is nearly 130 percent higher, and the Consumer's Price Index almost 90 percent higher. Despite a rapidly expanding population and a great increase in the total product of the economy, Government programs which are directed toward servicing the general needs of the people and building up our natural resources have been held down.[4]

Principles of tax revision.—Precisely as the problem of expenditure reduction is best approached by a well-considered integrated policy rather than by random slashing and expediency, the problem of added Federal revenues should no longer be approached by patchwork additions or blanket percentage increases in existing rates. The need for extraordinary revenues, the risk of impairing production incentives, coupled with the desirability of restricting consumption at this particular time, must all be considered along with the usual goals of equity and justice. The specific requirements of the mobilization economy thus call for extraordinary care in the formulation of a tax program.

Some have suggested that a critical point exists beyond which taxation may not go without generating inflationary forces and, upon the basis of empirical evidence, have set this point at about 25 percent of the national income.[5] The percentage which total Federal, State, and local taxes bear to national income will exceed this level in fiscal years 1952–53 (table I, p. 41) as it did in fiscal year 1951. The critical point of taxes varies from time to time, as well as from country to

[4] *The Annual Economic Review*, January 1952, p. 131.

[5] The proposition stated by Mr. Colin Clark of a critical point near 25 percent found no support among a panel of 8 university economists at a roundtable conducted by the Joint Committee on the Economic Report, January 31, 1952. See its Hearings, p. 358.

country. The important issue lies in the size of governmental expenditure rather than in the level of taxation. The proportion of national output taken by Government and the purposes for which that output is being withdrawn from the amounts available for private consumption are the critical questions. Many Government expenditures covered by taxation are, for example, services which not only constitute important parts of the standard of living but could not be successfully performed by private individuals or enterprises. In these cases, the covering taxes are more fees or prices for services requested and rendered than burdensome taxes. Police protection, public roads, public health facilities, and the post office are examples of such services. On the other hand, the amounts of resources and product used for defense purposes constitute an unfortunate evil and economic waste which is burdensome to all. The American people can and will make *necessary* sacrifices of resources and output for defense.

No matter how much some would like to think of taxes as being levied for revenue purposes only, the fact is that no tax is without its effect—good or bad—on the economic behavior of individuals and businesses. Today's tax structure has grown up largely under conditions of depression and war. Now the revenue needs of a new defense build-up have been superimposed upon this hybrid. At the same time it seems probable that the revenue needs of defense will continue to be a dominant factor in fiscal affairs for some years to come.. This makes it all the more necessary that the tax system be continually reexamined in order best to adapt it to the needs of the present and immediate future. For these and similar reasons it is important to develop some principles which illustrate the fundamentals underlying expansion or much needed revision of the tax program.

1. It should be realized that even though revenue needs and budget balancing considerations must always weigh heavily in tax reductions and increases, nevertheless, taxes have economic impacts which should be recognized so that the tax structure can be kept consistent with the Government's program for economic progress and stability. The timing and amount of funds which the Government takes from or adds to the Nation's income flow are matters equal in significance to the Government's purely revenue needs. With the Government budget and the tax burden taking a fifth or more of national product, the aggregate taxes collected are inevitably an important influence on the behavior of the economy.

2. Details of tax programs as well as total collections have important economic implications. Under current conditions not only the aggregate of taxes but the detailed features should be expressly designed to assure the maximum stabilizing effects per dollar of taxes collected. Considerable use has been made of the accelerated depreciation program as a device for encouraging the construction of defense plants. Whatever may be said about particular cases, the effectiveness of the program seems to have been demonstrated by the use made of it. Another example of adapting tax programs to over-all Government objectives might, if feasible in this country, follow the so-called deferred capital cost allowance system in use in the Dominion of Canada. In the Dominion the current over-all policies are similar to ours in the desire to control inflation and direct investments into channels contributing most to national defense. To this end the cur-

rent deduction for tax purposes of depreciation allowances on new investments is permitted only in the case of eligible projects contributing to defense or defense-supporting industries. The deductibility of depreciation for tax purposes may thus be turned to a negative control discouraging nondefense building, as well as being used, as in the United States, as a positive incentive to encourage selective types of investment.

3. In view of the large revenue needs and the inevitable high rates of taxation which they call for, the utmost equity among existing taxpayers must be provided by the statute and in its administration. Specific tax "loopholes" [6] have been pointed out on various occasions before the committees of Congress but the pressures for the prompt enactment of new revenue-producing provisions have led to the postponement of the seemingly less urgent problem of removing inequities. The policy of postponement cannot be followed indefinitely without seriously impairing the public attitude toward the payment of today's high rates.

4. With the demands for revenue on the part of the Federal Government at extraordinarily high levels, the integration with State and local taxes likewise becomes increasingly important. Traditional patterns of taxation left to each of the various levels of Government tend to break down as expenditures at all governmental levels increase. With cities, States, and the Federal Government levying income, inheritance, sales, excise taxes, etc., layer upon layer, it falls upon the Federal Government, in cooperation with State and local agencies, to study the combined effect and not treat its own imperative needs as though they represented the only levy on the taxpayer's pocketbook.

5. While the income tax may serve as the chief reliance of both the States and the Federal Government in peacetimes, it must be accepted that there are limits beyond which income taxation may not be pressed, without repressive effects. Tax policy under today's conditions should systematically seek to discover what these practical or theoretical limits are in terms of the national income and the various income classes. Particularly, attention should be given to increasing progressivity below the $10,000 income level.

6. Sovereign governments should proceed cautiously in placing limitations on taxing powers in the Constitution. The current attempt to limit the rate of Federal income, estate, and gift taxes to 25 percent is illustrative.[7]

[6] The President has recommended that most of the additional revenue requested should be derived from closing such "loopholes" and reducing special tax privileges. See *The Economic Report of the President, January 1952*, pp. 21, 25, and 135.

[7] See *Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates*, materials assembled for the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives by the committee staffs, February 1952.

Monetary Policy

While the unusually heavy refunding requirements of 1951 have now been passed the refunding task for the next 12 months, together with the prospect that the Treasury will have to raise some new money adds to the current importance of monetary policy. To a considerable extent the fiscal situation and the monetary problems are complementary and each must, therefore, be solved in the light of the other.

The interdependence of monetary, credit, and fiscal policies in promoting the ends of the Employment Act of 1946 has seldom been more convincingly demonstrated than during the fiscal year 1951. Though the Federal Budget showed a consolidated cash surplus of $7.6 billion for fiscal year 1951, the year as a whole witnessed one of the most rapid and pervasive inflationary movements in recent American history. Whatever deflationary effect the cash withdrawal on the Government account might have had was offset by expansion in various types of private credit. During the fiscal year business loans of commercial banks increased by nearly $7 billion; consumer loans increased $1.7 billion; while expansion in other types of credit, particularly real estate mortgages, was similarly large.

The ineffectiveness of the governmental cash surplus, normally a deflationary force, was, in large part, attributable to anticipatory forces on the inflationary side arising from the current or expected placement of orders for future deliveries. Even though these "anticipatory" forces must be given due weight in explaining the price rises which did occur, the nullification of the normal deflationary effects of the budgetary cash surplus by a simultaneous expansion of commercial bank nongovernmental loans points to the necessity for coordinating monetary and fiscal policies if they are to promote the purposes of the Employment Act. Monetary policy which permits the substitution of private deficit financing, in the form of bank borrowing, for governmental deficit financing, may have merits on other scores but is hardly a consistent Government policy if the objectives are to dampen inflationary forces.

The great reliance which must be placed upon the monetary and fiscal tools available to Government and the obvious need for utmost coordination in their use has prompted the Joint Committee on the Economic Report to continue its study of how these devices may best be organized and employed. A Subcommittee on General Credit Control and Debt Management is, therefore, following up earlier committee studies evaluating recent monetary and credit policies. In due course a report by this subcommittee will consider these questions in more detail.

At the beginning of the calendar year 1951, the Treasury faced the enormous task of refunding $32.3 billion of marketable certificates, notes, and bonds maturing within the year, exclusive of bills. These maturing issues, together with those reaching their first call date during the year, aggregated more than $44 billion, or nearly one-third of the total marketable debt, again exclusive of bills. The task of dealing with such heavy maturities in so short a time has now been accomplished.

Of the $32.3 billion maturing within the year, only $2.1 billion were turned in for cash by investors although substantial additional amounts exchanged by the Federal Reserve had undoubtedly been disposed of by investors in anticipation of maturity. In addition, more than $13.5 billion out of $20 billion long-term bonds, at the time neither due nor callable, were exchanged by their owners in accordance with the Treasury offerings. For the most part these refunding transactions have gone forward in the period since March 4 when the "accord" between the Treasury and the Federal Reserve was announced and the rigidly supported market for Government securities abandoned. During the period, yields on Government bonds of 15 or more years' maturity, which had stood at about 2.40 percent for the month preceding the accord, rose to 2.74 percent in the week ending December 29. At the same time, the rate on "3 months' bills" moved upward from 1.39 percent in February to 1.86 percent at the end of the year.

The refunding task in sight for 1952 in large measure grows out of the 1951 situation. Of the $30 billion of fixed maturity, non-bill, issues falling due in calendar 1952, all but $1 billion are certificates of indebtedness issued in connection with the refunding operations of 1951. (See table XVI.) Further refunding of these certificates will, of course, depend upon market conditions as the securities mature. In addition $2.5 billion of tax anticipation bills mature, one-half in March and one-half in June 1952. For the most part, the $24.5 billion of bonds callable during the calendar year 1952 are issues the first call dates of which have already been passed over, or further issues carrying similar coupons.

TABLE XVI.—*Interest-bearing public marketable issues maturing or callable between Jan. 1 and Dec. 31, 1952* [1]

[Millions of dollars]

1952	Security	Fixed maturity issues	Callable issues	Dec. 31, 1951, price-yield basis to maturity (percent)
March	2½ percent bond March 15, 1952–54 [2]	1,024		1.71
April	1⅞ certificate April 1, 1952	9,524		1.80
June	2 percent bond December 15, 1951–55 [3]		510	2.16
	2 percent bond June 15, 1952–54		5,825	2.16
	2¼ percent bond June 15, 1952–55		1,501	[4] 2.11
July	1⅞ certificate July 1, 1952	5,216		1.82
August	1⅞ certificate August 15, 1952	583		1.82
September	1⅞ certificate September 1, 1952	1,832		1.84
	2 percent bond September 15, 1951–53 [5]		7,986	2.04
October	1⅞ certificate October 15, 1952	10,861		1.85
December	2 percent bond December 15, 1952–54		8,662	2.19
	1⅞ certificate December 15, 1952	1,061		1.88
	Total	30,101	24,485	

[1] Exclusive of approximately $11 billion in 3 months' bills and $2.5 billion in tax anticipation bills.
[2] Called for redemption on Mar. 15, 1952. Yield taken to that date.
[3] Callable on 4 months' notice on June 15, 1952.
[4] Yield to earliest call date.
[5] Callable on 4 months' notice on Sept. 15, 1952.

Source: Office of the Secretary of the Treasury, *Treasury Bulletin*, January 1952.

The problems of Government debt management for 1952 involve not only the refunding of these maturing items but will almost certainly involve the raising of some new money. According to estimates elsewhere in this report, a cash deficit of the order of $10 billion seems probable for the next fiscal year unless adequate additional taxes are enacted or expenditures reduced.

If the rate of expenditures and receipts follows the President's budget estimates, a substantial amount of additional borrowings may be needed for a short time. On the other hand if taxes are increased or expenditures are reduced, the smaller new money needs may well be handled with a minimum of inflationary effect. In any case the precise forms which the Treasury may employ in meeting the new money needs (just as in the case of refundings) will depend upon money market conditions at the time. The more or less regular flow of maturing issues permits the Treasury to adjust its offerings so as to take advantage of available market conditions even though the immediate needs for new money may be of a short duration on the assumption that a budget surplus in the nearby years will be obtainable.

The general tone of the money market under which these operations are likely to be carried out will be influenced by factors discussed elsewhere in this report. Total personal savings during fiscal 1952 and 1953 will exceed or at least equal fiscal 1951 levels. This will be true whatever the rate of military build-up. While personal savings are thus expected to run at high levels, expenditures for plant and equipment by business are likely to be the same or less in fiscal 1953. The limitation of materials is almost certain to slow down the expansion of plant and equipment on the part of business and local governments. If profits, after taxation, reach the levels suggested in chapter 3, retained profits and depreciation funds will be high enough to permit a substantial reduction in the amount of new capital which corporations will be called upon to raise through the market. With (1) private savings expected to continue at high levels and (2) the demands for private industrial and residential construction held down by nonfinancial considerations, the year 1952 should be characterized by a relatively large amount of funds seeking outlets, even if temporarily. It may be hoped that the direct expansionary borrowing from banks can in large measure be avoided.

With the prospect of a somewhat easier balance in the supply of real savings and demand for investment funds, the major concern of monetary policy for the immediate future should be to forestall further major expansion of bank loans or credit for nondefense purposes.

While general credit control offers attractive opportunities for general inflation control, the supplemental use of selective credit controls [8] is necessary in restricting by regulation the expansion of credit in specific directions most serious from the defense standpoint. Restraint on certain housing credits may be expected to be increasingly effective in the curtailment of the rate of expansion in mortgage loan credit and, what is even more important, in the demand for building materials.

Regulation of credit for consumer durables has likewise been effective in decreasing credit expansion and in bolstering the enforcement of materials allocations. According to the Department of Commerce, the restraints under regulation W during the first three quarters of 1951 directly inhibited purchases of consumer durables to the extent of

[8] These controls are allied as to purpose to selective investment controls and materials allocation which also aim to discourage nonessential investment and plant expansion.

$2.5 billion or $3 billion annually.[9] It is still too early to judge the effect of the easing of the requirements and maturity limitations under the regulations which were put into effect at the end of July.

Any easing of the selective monetary controls requires a compensatory strengthening of the program for voluntary action to help curb inflation. The voluntary credit restraint program must be regarded as a supplement, however, rather than as a substitute for measures directed at general credit restraint or selective restraints influencing the demand for specific types of credit. Credit restraint committees formed to forward this voluntary program have already recommended postponement of capital outlays for nonessential and postponable capital outlays. It would be wrong, of course, to expect the program to direct or control expenditures on plant expansion or inventory buying when they are financed from retained profits or from funds already on hand.

Regulatory Policy

The regulatory policies of the Federal Government, including those relating to allocation, priorities, wages, prices, and antitrust, should be adapted to the requirements of the mobilization economy. Changes to be made depend on the size, timing, and duration of the defense program.

The Federal Government affects economic stability, growth, and the composition of total output not merely through fiscal and monetary policies, but also through regulatory policies. Some of these regulatory policies are of long standing peacetime character, such as the antitrust statutes; the fair trade laws; regulations of production standards, such as the Pure Food and Drug Act; and regulations involved in administering agricultural price supports. However, in the present mobilization period, as in World War I and World War II, additional regulatory policies have been adopted covering such fields as materials allocations and priorities, direct control of wages and prices, inventory controls, and regulations as to investment. In this mobilization period it may be necessary to shift the emphasis somewhat in administering these regulatory policies so as to adapt them to the changing circumstances of a mobilization economy.

In general, the principal problems will be: (1) To insure that these peacetime regulations do not prevent the military from obtaining procurement in the volume and at the time needed; (2) to insure that these regulatory policies do not contribute to but rather restrain inflation during a period of relative shortage of consumer goods; (3) to maintain during the mobilization period protection against unfair competition and restraint of competition which might result from the character of military procurement; and (4) to maintain a balance within the economy between various types and sizes of enterprises which will be sustainable over a long period without impairing military preparedness or the free private enterprise system. Briefly, the problem is to prevent the requirements of a program for defending freedom from destroying that very freedom.

This danger is particularly relevant to a long gradual build-up. In this connection, the policies under both the antitrust statutes and

[9] *Survey of Current Business*, November 1951, p. 7.

the Defense Production Act should be directed toward expanding capacity in the hands of new enterprises wherever this is economically feasible. It might be well to adopt a standard that expansion of the plant and equipment of existing large-scale firms should only be undertaken when there is no alternative procedure for developing a new healthy young enterprise to build, maintain, and operate this new capacity.

The President's recommendations as to regulatory policies to accompany an $85 billion budget include: (1) extension of the Defense Production Act for two more years with its provisions strengthened as to production expansion and the control of prices and credit; (2) repeal of section 104 of the Defense Production Act which restricts our imports of certain goods which other countries could export to us on mutually advantageous terms; (3) revise the basic legislation concerning labor-management relations; and (4) provide authority to control margins for trading on commodity exchanges.[10]

Regulatory policies, in particular, must be framed in the light of the fact that present mobilization may either continue for a long period of years with a consequent prolonged strain on the economy or be changed suddenly into an all-out war program at the option of the Communists. There is a serious need for a well-coordinated long-term analysis of policies to insure that the programs are consistent, sustainable, and favorable to the health of free private enterprise over the long term.

The principal challenge to economic stabilization and, in fact, to the direct control program provided by the Defense Production Act in the near future is the cost-push phenomena discussed in recent reports of this committee. Competitive pressures to keep prices down such as normally exist in a peacetime buyer's market are weakened while those that push prices up are strengthened during periods of mobilization. In ordinary times consumers have a margin of transfer. They can buy from any one of several suppliers. Manufacturers similarly have choice when incurring their costs. Both exert pressure to keep prices down. Consumers resist price increases at the retail level and merchants and manufacturers constantly strive to keep costs down at earlier stages of production.

But the big Government demand for output to meet its military requirements offsets and nullifies virtually all restraints on the demand for productive resources, especially in the case of materials used both for military "hardware" and consumer durables. Indeed, consumers and manufacturers rush in to compete with the Government for physical goods.

In the resultant seller's market the merchants and manufacturers relax their normal controls on costs. In order to get volume production on the market fast they spend less time and effort bargaining over raw material prices and wages. The competitive forces of the market become less intense throughout the economy. The brakes which usually moderate the constant and persistent efforts of suppliers of farm products, raw materials, and labor to get more are lifted somewhat.

As a result these resource prices push upward, and thereby increase the incomes of farmers, sellers of raw materials here and abroad, and labor. Such increases in income become additional fuel under the

[10] See *The Economic Report of the President*, January 1952, p. 25.

inflation boiler. Unless there are substituted for the normal restraints that operate in a buyer's market effective, even if abnormal, direct Government controls, such cost pressures will spiral the price level upward to higher and higher cost plateaus. This, in brief, is the cost-push mechanism of inflation.

It is clear that need exists for private restraint in efforts of each group to shift the burdens of national security to other groups in the economy. This cost-push mechanism reinforces the statement of the Joint Economic Committee on April 2, 1951:

> Thus a challenge is presented to the Congress to modify, by legislation enactment, this engine of inflation which will continue to press constantly upward on prices unless we find the way to stop the inflationary spiral so that a just stabilization ratio may be attained between agricultural prices, wages, industrial prices, and profits. All must be stabilized on a just basis by the removal of every factor contributing to the inflationary spiral.
>
> To permit administered prices to be maintained in some important industries with undiminished force, to allow the resultant corporate profits to continue at present extraordinary levels, to try to keep farm prices by Government price-support programs on a parity calculated from such industrial prices, to allow escalator clauses to continue in force in wage contracts tying wages to the cost of living, to make price-ceiling adjustments on the basis of increases in materials and labor costs and thereby to raise further the cost of living—is merely to set up an unbeatable mechanism of built-in inflation that, however endurable for a short war, could prove disastrous during a long preparedness period. As a minimum a waiting period of 3 or 6 months might be established before automatic adjustments are allowed to take place, such as that between increases in the cost of living and wage rates, thereby bringing somewhat greater stability and less frequency of change into the price-wage-cost picture.[11]

[11] *Report of the Joint Committee on the Economic Report on the January 1951 Economic Report of the President*, 82d Cong., 1st sess., S. Rept. 210, p. 9. Since the joint committee made this statement, the proposal for a waiting period before automatic adjustments are allowed to take place was also made by the Committee for Economic Development in its statement on national policy, *Price and Wage Controls*, December 1951.

CHAPTER 7

SUMMARY OF THE NATION'S ECONOMIC BUDGET

An illustrative balanced Nation's economic budget is shown for fiscal 1953 in table XVII. Three policy alternatives are shown: (1) The President's recommendations; (2) a reduction in expenditures of $5 billion; and (3) a high rate (nearly 10 percent) of personal savings.

The policies and programs outlined in the preceding chapter, together with the economic assumptions spelled out in Part I, can be summarized in quantitative terms in a Nation's economic budget statement. Table XVII, page 92, shows such a summary of the Nation's economic budget for the fiscal years 1951 and 1952 and as it might appear under alternative programs for economic stabilization for fiscal 1953.

The Nation's economic budget for fiscal 1953 could be balanced by any one of the three methods indicated in the preceding chapter. Each policy is illustrated in table XVII.

Under the President's budget recommendation of $85.4 billion for fiscal 1953, the Nation's economic budget would apparently be balanced by an increase in taxes of $5 billion plus additional personal savings due to tighter direct controls under the Defense Production Act which he is requesting.

The items in the Federal categories of this Nation's economic budget can be derived from the Federal administrative budget. Such a derivation is given in table XVIII, page 94. Tables XIX, page 95, and XX, page 96, show a summary of the administrative and cash budgets, respectively. In fiscal 1953 the administrative budget deficit ranges from $9.4 billion to $14.4 billion, and the cash deficit ranges from $5.4 billion to $10.4 billion, depending on the assumptions as to expenditures and taxes.

TABLE XVII.—*Summary of the Nation's economic budget, actual fiscal year 1951; estimated, 1952 and 1953 (as calculated under alternative methods of removing excess demand)*

[Billions of dollars]

Incomes from national production	1951[1] actual	1952[2,3]	1953[2] By tax increase[4]	1953[2] By reduction of Federal expenditures[5]	1953[2] By high rate of personal savings[6]	Expenditures for national production	1951[1] actual	1952[2,3]	1953[2] By tax increase[4]	1953[2] By reduction of Federal expenditures[5]	1953[2] By high rate of personal savings[6]
INDIVIDUAL CONSUMERS											
Disposable personal income	215.2	228.0	232.0	237.0	237.0	Durable goods	30.3	25.0	26.0	29.0	26.0
Personal savings (−)	−12.5	−21.5	−16.0	−18.0	−18.0	Nondurable goods	107.9	113.5	118.0	120.0	118.0
Net additional savings			−2.0		−5.0	Services	64.5	68.0	70.0	70.0	70.0
Total	202.7	206.5	214.0	219.0	214.0	Total	202.7	206.5	214.0	219.0	214.0
BUSINESS											
Corporate undivided profits	13.3	8.1	10.2	10.2	10.2	New construction	23.3	20.7	20.0	20.0	20.0
Inventory valuation adjustment plus statistical discrepancy	−8.5	−.5	−1.3	−1.3	−1.3	Producers' durable equipment	25.7	28.3	25.1	25.1	25.1
Capital consumption allowances	22.4	24.0	26.0	26.0	26.0	Change in business inventories	9.3	4.0	2.5	2.5	2.5
Dissavings (+) or savings (−)	+29.0	+21.4	+12.7	+12.7	+12.7	Net foreign investment	−2.1	0	0	0	0
Total	56.2	53.0	47.6	47.6	47.6	Total	56.2	53.0	47.6	47.6	47.6
STATE AND LOCAL GOVERNMENT											
Personal tax and nontax receipts	2.8	3.1	3.2	3.2	3.2	Purchases of goods and service	20.7	21.8	22.1	22.1	22.1
Business tax and nontax liabilities	16.5	17.4	18.5	18.5	18.5						
Contributions for social insurance	1.1	1.2	1.2	1.2	1.2						
Payments other than for goods and services (−)	−.1	−.1	−.2	−.2	−.2						
Dissavings (+) or savings (−)	+.4	+.2	−.6	−.6	−.6						
Total	20.7	21.8	22.1	22.1	22.1	Total	20.7	21.8	22.1	22.1	22.1

Personal tax and nontax receipts	21.9	27.9	35.8	30.8	30.8	Purchases of goods and services:					
Business tax and nontax liabilities	33.8	34.8	38.4	38.4	38.4	Major national security	26.4	48.8	66.4	61.9	66.4
Contributions for social insurance	6.7	7.6	7.5	7.5	7.5	All other	3.5	4.9	4.9	4.4	4.9
Payments other than for goods and services (−)	−15.6	−16.5	−16.3	−16.3	−16.3						
Dissavings (+) or savings (−)	−16.9	−.1	+5.9	+5.9	+10.9						
Total	29.9	53.7	71.3	66.3	71.3	Total	29.9	53.7	71.3	66.3	71.3
Grand total	309.5	335.0	355.0	355.0	355.0	Grand total	309.5	335.0	355.0	355.0	355.0

[1] Current prices.
[2] Constant June–July 1951 prices. For detailed explanation, see footnote 1, table IV.
[3] Assumes Federal expenditures to be about $1.9 billion less than official estimate.
[4] Implies $5 billion increase in Federal taxes falling on consumer income, net of effects on yield of existing taxes. Tax effective July 1, 1952; $4 billion collections out of $5 billion additional liabilities. (Estimated deflationary effect on consumer demand of $3 billion; remaining $2 billion coming out of individual savings.) The tax increase has been assumed to fall solely on consumers, pending a more detailed spelling out of the President's tax program.
[5] Assumes $5 billion reduction in Federal expenditures. Such reduction might be achieved by congressional action or might result from lags in the production of military items which would lower expenditures in fiscal 1953 below the official estimates in the President's budget.
[6] Assumes voluntary savings rate of nearly 10 percent.

Source: Actual, Bureau of the Budget, U. S. Treasury and Department of Commerce; estimates, staff, Joint Committee on the Economic Report.

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TABLE XVIII.—*Derivation of Federal Government sector of the Nation's economic budget from the Federal budget accounts, actual fiscal year 1951; estimated, 1952 and 1953*

[Billions of dollars]

Item	1951	1952 [1] [2]	1953 [1] By tax increase [3]	1953 [1] By reduction of Federal expenditures [4]	1953 [1] By high rate of personal savings [5]
RECEIPTS					
Personal tax and nontax payments:					
Direct taxes on individuals (administrative budget)	24.1	30.1	37.0	33.0	33.0
Plus: Nontax receipts	.1	.1	.1	.1	.1
Less: Excess (+) or deficiency (−) of tax receipts over tax liabilities	+.3	−.1	−1.3	−.3	−.3
Tax refunds	2.0	2.4	2.6	2.6	2.6
Equals: Personal tax and nontax payments (Nation's economic budget)	21.9	27.9	35.8	30.8	30.8
Business tax and nontax liability:					
Direct taxes on corporations (administrative budget)	14.4	22.9	27.8	27.8	27.8
Plus: Excise taxes (administrative budget)	8.7	9.0	9.7	9.7	9.7
Customs (administrative budget)	.6	.6	.6	.6	.6
Nontax receipts	.3	.3	.3	.3	.3
Less: Excess (+) or deficiency (−) of tax receipts over tax liabilities	−9.9	+1.4	−.1	−.1	−.1
Tax refunds	.1	.1	.1	.1	.1
Equals: Business tax and nontax liabilities (Nation's economic budget)	33.8	34.8	38.4	38.4	38.4
Contributions for social insurance:					
Trust account receipts	7.8	8.8	8.8	8.8	8.8
Less: Interest on trust accounts investment	.9	1.0	1.1	1.1	1.1
Miscellaneous receipts	.2	.2	.2	.2	.2
Equals: Contributions for social insurance (Nation's economic budget)	6.7	7.6	7.5	7.5	7.5
EXPENDITURES					
Purchases of goods and services (major national security):					
Total major national security (administrative budget)	26.4	47.8	65.1	60.6	65.1
Less: Excess of expenditures over liabilities. Adjustment for budget expenditures for other than currently produced goods and services	0	−1.0	−1.3	−1.3	−1.3
Equals: Purchase of goods and services (major national security) (Nation's economic budget)	26.4	48.8	66.4	61.9	66.4
Purchases of goods and services (all other Federal):					
Veterans (administrative budget)	5.3	5.2	4.2	4.2	4.2
Civil functions (administrative budget)	7.2	10.0	9.8	9.3	9.8
Less: Excess of expenditures over liabilities. Adjustment for budget expenditures for other than currently produced goods and services	+9.0	+10.3	+9.1	+9.1	+9.1
Equals: Purchases of goods and services (all other Federal) (Nation's economic budget)	3.5	4.9	4.9	4.4	4.9
Payments other than for goods and services:					
Grants and aid to State and local government (administrative budget)	2.4	2.7	3.0	3.0	3.0
Interest payments (administrative budget)	5.7	6.0	6.3	6.3	6.3
Subsidies less current surplus of government enterprises	.3	.2	0	0	0
Benefits from social insurance funds	3.7	4.8	4.2	4.2	4.2
Military pension, disability, and retirement payments	2.5	2.5	2.7	2.7	2.7
Adjusted compensation benefits, mustering-out payments to discharged servicemen and terminal leave benefits	.1	.2	.3	.3	.3
Readjustment, self-employment, and subsistence allowances to veterans	2.0	1.4	.7	.7	.7
Other	.5	.5	.6	.6	.6

See footnotes at end of table, p.95.

TABLE XVIII.—*Derivation of Federal Government sector of the Nation's economic budget from the Federal budget accounts, actual fiscal year 1951; estimated, 1952 and 1953*—Continued

[Billions of dollars]

Item	1951	1952 [1 2]	1953 [1] By tax increase [3]	1953 [1] By reduction of Federal expenditures [4]	1953 [1] By high rate of personal savings [5]
EXPENDITURES—continued					
Payments other than for goods and services—Con.					
Less: Interest received and interest not paid out to public	1.6	1.8	1.5	1.5	1.5
Equals: Payments other than for goods and services (Nation's economic budget)	15.6	16.5	16.3	16.3	16.3

[1] Constant June-July 1951 prices. For detailed explanation, see footnote 1, table IV.
[2] Assumes Federal expenditures to be about $1.9 billion less than official estimates.
[3] Implies $5 billion increase in Federal taxes falling on consumer income, net of effects on yield of existing taxes. Tax effective July 1, 1952; $4 billion collections out of $5 billion additional liabilities. (Estimated deflationary effect on consumer demand of $3 billion; remaining $2 billion coming out of individual savings.)
[4] Assumes $5 billion reduction in Federal expenditures. Such reduction might be achieved by congressional action or might result from lags in the production of military items which would lower expenditures in fiscal 1953 below the official estimates in the President's budget.
[5] Assumes voluntary savings rate of nearly 10 percent.

Source: Actual, Bureau of the Budget, U. S. Treasury, and Department of Commerce; estimates, Staff, Joint Committee on the Economic Report.

TABLE XIX.—*Federal administrative budget, actual fiscal year 1951; estimated, 1952 and 1953*

[Billions of dollars]

Item	1951	1952 [1 2]	1953 [1] By tax increase [3]	1953 [1] By reduction of Federal expenditures [4]	1953 [1] by high rate of personal savings [5]
Receipts:					
Direct taxes on individuals	24.1	30.1	37.0	33.0	33.0
Direct taxes on corporations	14.4	22.9	27.8	27.8	27.8
Excise taxes and customs	9.3	9.6	10.3	10.3	10.3
Others (net of refunds)	+.3	+.1	−.1	−.1	−.1
Total budget receipts	48.1	62.7	75.0	71.0	71.0
Expenditures:					
Major national security:					
Military services	20.5	38.6	51.2	49.0	51.2
International security	4.7	6.5	10.8	8.7	10.8
Atomic energy	.9	1.7	1.8	1.8	1.8
Other	.3	1.0	1.3	1.1	1.3
Total major national security	26.4	47.8	65.1	60.6	65.1
Past wars:					
Veterans	5.3	5.2	4.2	4.2	4.2
Interest	5.7	6.0	6.3	6.3	6.3
Total past wars	11.0	11.2	10.5	10.5	10.5
All other programs	7.2	10.0	9.8	9.3	9.8
Total budget expenditures	44.6	69.0	85.4	80.4	85.4
Excess of administrative budget receipts	3.5				
Excess of administrative budget expenditures		6.3	10.4	9.4	14.4

[1] Constant June-July 1951 prices. For detailed explanation, see footnote 1, table IV.
[2] Assumes Federal expenditures to be about $1.9 billion less than official estimates.
[3] Implies $5 billion increase in Federal taxes falling on consumer income, net of effects on yield of existing taxes. Tax effective July 1, 1952; $4 billion collections out of $5 billion additional liabilities. (Estimated deflationary effect on consumer demand of $3 billion; remaining $2 billion coming out of individual savings.)
[4] Assumes $5 billion reduction in Federal expenditures. Such reduction might be achieved by congressional action or might result from lags in the production of military items which would lower expenditures in fiscal 1953 below the official estimates in the President's budget.
[5] Assumes voluntary savings rate of nearly 10 percent.

Source: Actual, Bureau of the Budget and U. S. Treasury; estimates, staff, Joint Committee on the Economic Report.

TABLE XX.—*Federal consolidated cash budget, actual fiscal year 1951; estimated, 1952 and 1953*

[Billions of dollars]

Item	1951	1952 [1] [2]	1953 [1] By tax increase [3]	1953 [1] By reduction of Federal expenditures [4]	1953 [1] By high rate of personal savings [5]
Receipts from the public:					
Direct taxes on individuals	24.1	30.1	37.0	33.0	33.0
Direct taxes on corporations	14.4	22.9	27.8	27.8	27.8
Excise taxes and customs	9.3	9.6	10.3	10.3	10.3
Others (net of refunds)	5.6	6.0	5.7	5.7	5.7
Total cash receipts	53.4	68.6	80.8	76.8	76.8
Payments to the public:					
Major national security:					
Military services	20.6	38.7	51.2	49.0	51.2
International security	4.4	6.7	11.0	8.9	11.0
Atomic energy	.9	1.7	1.8	1.8	1.8
Other	.3	1.0	1.3	1.1	1.3
Total major national security	26.2	48.1	65.3	60.8	65.3
Past wars:					
Veterans	6.0	6.2	4.9	4.9	4.9
Interest	4.1	4.2	4.8	4.8	4.8
Total past wars	10.1	10.4	9.7	9.7	9.7
All other programs	9.5	12.2	12.2	11.7	12.2
Total cash payments	45.8	70.7	87.2	82.2	87.2
Excess of cash receipts	7.6				
Excess of cash payments		2.1	6.4	5.4	10.4

[1] Constant June-July 1951 prices. For detailed explanation, see footnote 1, table IV.

[2] Assumes Federal expenditures to be about $1.9 billion less than official estimates.

[3] Implies $5 billion increase in Federal taxes falling on consumer income, net of effect on yield of existing taxes. Tax effective July 1, 1952; $4 billion collections out of $5 billion additional liabilities. (Estimated deflationary effect on consumer demand of $3 billion; remaining $2 billion coming out of individual savings.)

[4] Assumes $5 billion reduction in Federal expenditures. Such reduction might be achieved by congressional action or might result from lags in the production of military items which would lower expenditures in fiscal 1953 below the official estimates in the President's budget.

[5] Assumes voluntary savings rate of nearly 10 percent.

Source: Actual, Bureau of the Budget and U. S. Treasury; estimates, staff, Joint Committee on the Economic Report.

PART III—BEYOND FISCAL 1953

CHAPTER 8

LONG-TERM PROSPECTS AND PROBLEMS

The analyses in Parts I and II contain implications for the period beyond fiscal year 1953. While the urgency of the present defense build-up program and the uncertainty as to international developments dwarf, for the foreseeable future, the economic problems which may arise when major reductions in Government expenditures are possible, nevertheless some of these are of sufficient importance that they should be summarized. They may be divided into two categories: economic prospects and economic problems.

Economic Prospects Beyond Fiscal 1953

On the basis of the assumptions stated in Part I, the following tendencies may develop beyond fiscal year 1953:

(1) After fiscal 1954 the military expenditures may decline toward a maintenance level tending toward the upper limit of a $40 billion to $50 billion range so that a growing cash budget surplus seems likely unless taxes are reduced or employment falls below the assumed levels. (See table VIII, p. 59.)

(2) As the defense program reaches a stand-by or maintenance basis, increases in the labor force and rising productivity (in part due to unusually heavy investment programs and a high proportion of very modern equipment in the capital structure) could lead to an increase in unemployment and a demand for shorter average annual hours of work if demand by consumers and business should fail to expand with the rise in total capacity.

(3) Shortages of consumer and investment goods are unlikely to be sufficiently great during the period of peak military expenditures to create a large backlog of deferred demand by consumers and business such as helped sustain economic activity following World War II.

(4) The supply of consumer goods and services can be increased rapidly as soon as the peak in Government military requirements is passed in fiscal 1954.

(5) Changes in products and in production techniques seem to imply that high volume production in future years may require either new sources of certain raw materials or new research to find ways of substituting plentiful for scarce materials.

(6) Accumulated liquid savings will be large but proportionately smaller than after World War II.

Problems Beyond Fiscal 1953

The analysis presented in this report suggests that certain problems may arise beyond fiscal 1953. Some of these might bear investigation at an early date. It is assumed that the military build-up program will pass its peak rate of expenditures during fiscal 1954. If this assumption proves correct, Federal expenditures could then decline to a stand-by or maintenance level substantially below the peak rate. When this occurs, new problems will arise.[1]

The first group of problems concerns government expenditure and tax policies. Among the questions that arise are:

How much can worth-while and desirable civilian activities, curtailed during the peak expenditure period, be resumed or expanded to take care of the needs of the growing population; for example, schools, roads, playgrounds, irrigation projects, etc.?

How much and in what way will it be possible to reduce Federal taxes below present rates in order to foster economic stability and growth?

To what extent, if any, will controls over wages, prices, credit, investment and allocations be needed on a stand-by basis as part of military preparedness?

What changes will be needed in monetary and credit policies to assist in maintaining economic stability and growth?

The second group of problems relates more directly to the private economy. Among these are the following:

What will be the requirements for private investment after the hump?

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

How can needed 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 support high employment and high levels of investment?

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

Will research, technology, new industries and new enterprises go forward at the pace necessary for stable economy at maximum employment? How will these be affected by present standardization of defense items and the lack of materials, manpower and credit during the emergency?

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

What wage policies are most conducive to long-term economic growth and maximum employment without inflation?

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[1] Some of these problems were raised in this staff's report to the Joint Committee on the Economic Report in *Inflation Still A Danger*, August 1951. See the section "After the Hump," pp. 28 and 29.

Appendixes

APPENDIX A

TECHNICAL NOTES ON THE NATION'S ECONOMIC BUDGET

Development of the Nation's Economic Budget Concept

An economic budget for the Nation is a tool for synthesizing data and for providing a methodology for seeing in perspective the operation of all segments of the economy—consumer, business, and Government. An attempt is made (1) to express these combined plans in ex ante [1] form; (2) to measure the inconsistencies or imbalances that are revealed by the synthesis of these plans; (3) to evaluate quantitatively the likely economic impact of alternative programs for removing the imbalances and thus for maintaining economic stability and growth; and (4) to express the plans of the several categories as adjusted by such actions and as they might be expected to look ex post [2] if the underlying assumptions are borne out during the budgeted period.

It seems safe to assume that it is no longer a question as to whether responsible policy agencies—public or private—should build such models and analyze quantitatively economic imbalances. Every person with administrative responsibility—public or private—knows that such procedures are necessary, whether primitive or scientific, implicit or explicit. The real caution to be observed is that these procedures are not relied upon too naively.

The repeated use of such methods is more important than any particular set of answers because repetition of orderly processes of getting answers compels economic analysts increasingly to improve methodology, economic information, and their judgments.

At the outset, it should be stated that use of the Nation's economic budget procedures in no way implies or justifies a "planned economy" in the sense usually associated with the term—an economy directed by central authority, either democratic or autocratic. Rather, the procedure provides a method or a tool whereby economic data may be made available and used by individuals, businesses, and governments in improving their own programs, and thus the general welfare.

The idea of the Nation's economic budget approach as herein set forth was developed in the Fiscal Division of the Bureau of the Budget during the early part of World War II. The economic models prepared in the Fiscal Division were never published as official Government documents, but rather used internally. One of these models, however, was published in a professional journal covering the Federal fiscal year 1944: "A Budget for the Nation," *Social Research*,

[1] Used in the sense of plans or anticipations as they exist or are formed prior to actual events.

[2] Used to refer to estimates of how events work out after the event; in this study, used to refer to an estimate of how the Nation's economic budget might work out with the imbalances between the ex ante plans and the various sectors corrected.

September 1943. Other materials setting forth the concept and use of a Nation's economic budget as a tool for policy making were: *The Ten Billion Dollar Question* (The Winning Plans in the Pabst Postwar Employment Awards), May 1944, and *National Budgets for Full Employment*, National Planning Association, Washington, D. C., Pamphlets Nos. 43 and 44, April 1945. A comprehensive statement of the use of the Nation's budget device is: *The Nation's Budget and the Federal Government's Budget*, 1947, a typewritten doctoral dissertation by G. W. Ensley, available at New York University Library.

Presidential reports since 1945 have arranged historical economic data in budget form similar to that employed here. See, for example, the budget message for fiscal year 1946 transmitted to the Congress in January 1945, and "The Nation's Economic Budget" appendix attached to the periodic reviews of the Council of Economic Advisers. While the Council of Economic Advisers prepares projections, they are primarily for internal use only; and the published reports of the Council, the President, and other executive agencies of the Government contain only guidelines of the most general character.

A comprehensive Nation's economic budget projection was presented to the Joint Committee on the Economic Report in July 1950. This projection, prepared for the confidential use of the committee by the committee staff, suggested substantial inflationary pressures in the immediate months ahead. The committee immediately and unanimously recommended substantially higher taxes, curtailment of nonessential Government expenditures, and credit restrictions.

A second comprehensive model of the Nation's economic budget was prepared by the committee staff and published in a committee print in February 1951, entitled *Economic and Political Hazards of An Inflationary Defense Economy*. This report showed the inflationary pressures likely to result from three alternative levels of Federal spending during fiscal 1952.

In August 1951 the staff submitted a revised Nation's economic budget model for fiscal 1952 which was published along with the report of the committee, *Inflation Still a Danger*, Senate Document 644. 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. Fragments of projections that have appeared recently from official administration sources are summarized in appendix B.

CONCEPTS AND METHODS

The technical notes which follow set forth briefly certain concepts and methods which are basic to the construction and use of a Nation's economic budget.

Federal Administrative Budget, Federal Consolidated Cash Statement, Federal Category of the Nation's Economic Budget

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.

Ex Ante Budget Versus a Forecast

The Nation's economic budget procedure starts with the development of an ex ante projection of private and public programs and attempts to measure their probable economic consequences upon the basis of stated assumptions. In other words, on the basis of past experience and the known or assumed intentions of consumers, businesses, and governments, the most probable consequences of private and public programs are spelled out in quantitative terms.

The budget procedure, then, should indicate a set of policies (or changes in programs), both private and public, to achieve stated objectives of employment, production, and purchasing power. This is not the same as a forecast. A forecast would involve predicting what the policies, behavior, and actions of individuals, business firms, and Government bodies will actually be ex post. A forecast would involve predicting how inconsistencies between ex ante plans will actually be removed by adjustments as the budget period unfolds. The budget only shows how the inconsistencies could or should be reconciled into a consistent program. The forecast and the budget would be identical in their quantitative magnitudes only (1) if the assumptions as to output and methods of reconciling ex ante imbalances which are used in constructing the budget coincided with the forecast, and (2) if the programs suggested in the budget are actually carried out as assumed. If this were to occur, then the budget in fact would turn out to be a forecast.

The principal value of the Nation's economic budget procedure is that it (1) helps insure a consistent projection of the magnitudes, kinds, and directions of economic forces with which Government and private plans and programs will have to deal; and (2) aids in developing a suggested set of well-balanced and consistent procedures most likely to make possible the achievement of certain stated goals under the conditions set by current economic forces.

Conditions for Maximum Use of Nation's Economic Budget

The Nation's economic budget is most needed when Government programs—particularly spending programs—are of such magnitude and importance that they dominate changes in the economy; in other words, when Government spending and tax plans are the main forces making for changes in the economy. The tool is therefore particularly useful in periods of war or high national defense operations, such as the present. At other times, its main benefit is in identifying conflicts between programs of Government and private economic groups or individuals and in pointing out areas in which adjustments are necessary to reconcile these conflicts.

Operating Procedures

The preparation of an economic model, whether it be a Nation's economic budget, such as the one presented in this report, or a forecast, involves several different operations.

First, there is the matter of definition or standards. For example, a set of social accounts, such as those of the Department of Commerce, can be set up which define the various categories into which are classified incomes and expenditures of all individuals and groups. These are computed and published regularly showing a complete account of all expenditures and incomes of individuals, businesses, and Government.

Second, measurements must be made. Here arise problems concerning the accuracy and consistency of the measures of the magnitudes of each of the classifications laid out in the system of accounts with reference to consecutive time periods. This is the same problem as is involved, for example, when a standard length known as a yard has been established, and then measurements are made of distance in terms of so many of these yards. Errors may arise because (1) of inaccuracies in the ruler compared to the standard yard; (2) of physical or other conditions affecting the stability of the ruler (for example, expansion or contraction with changes in temperature); and (3) inaccuracies of observation in using the ruler.

The third operation is that of analysis, which refers to the determination of relationships between various categories in the accounts as a result of the analysis of the historical data that have been derived from the first two steps. An example would be the relationship between consumer expenditures or savings and disposable personal income. Pertinent here is the question of whether or not the system of analysis can successfully include all of the significant interrelationships between the categories so that all the factors which may effect the validity of the budget as a policy tool can be considered.

Fourth, the analyst must be concerned with the assumptions which have to be made so that, on the basis of defined standards, measurements, and analyses, an ex ante budget will show how present policies and programs of the various economic groups will work out under the assumed conditions and what imbalances will appear. At this stage it is particularly pertinent to take into consideration changes in military, technical, economic, or other circumstances which can reasonably be expected. This is particularly important if such changes should shift the ex ante economic budget expectations from what they would be on the basis of relationships derived from historical data.

Lastly, there is the aspect of developing a strategy for the future budget period in terms of a set of consistent private and public programs, which, on the basis of the standards, measurements, analyses and assumptions would yield a balanced program for achieving in the economic sphere the objectives of the Nation. The problem is not so much one of forecasting as it is one of constructing an ex post economic budget, indicating magnitudes and mutually consistent policies such that (1) the objectives will be achieved if the most probable series of events occurs; and (2) reasonable protection and insurance will be provided in the budget against economic uncertainties and surprises.

The most certain thing about budget making is that there are many uncertainties about the future. Any budget must be sufficiently flexible to deal successfully with departures from the assumptions on which it was constructed. As an example, in a period of short supply relative to income, inflationary pressures can be sharply reduced by a rapid increase in the ratio of personal savings to disposable personal income. In the ordinary course of events, in periods of high employment this ratio has a fairly narrow range of variation. A risk of runaway inflation is run if policies for controlling inflation in a period of defense mobilization are based upon the assumption that consumers will save unusually high proportions of their incomes. Consumers may actually save the more normal proportion or less. Thus, a conservative policy would call for measures to offset inflationary pressures that would arise if consumers save only average or less than average proportions of their incomes. If consumers, in the aggregate, do in fact save unusual proportions of their incomes, these measures could be relaxed.

Concepts and Methods of the Joint Committee Staff Studies

From these general observations on concepts underlying the derivation of the Nation's economic budget, we turn to a description of the methods used by the staff of the Joint Committee on the Economic Report.

First, most of the classifications and definitions utilized are those underlying the system of social accounts set up by the National Income Unit of the Office of Business Economics of the Department of Commerce. These concepts are set forth in the *National Income,* (1951 edition), *A Supplement to the Survey of Current Business.* Similarly, the considerations as to reliability and accuracy of the budget fundamentally turn upon the methods of measurement of these concepts and magnitudes as explained in this same supplement.

Of the remaining classifications and definitions used in the report, the majority are those of the Bureau of the Budget which are utilized in the Federal budget submitted to the Congress by the President in January of each year. The few remaining are standard statistical series whose definitions have been published by the respective Bureaus responsible for them, and these are indicated as sources in various tables.

Second, the estimates and projections in these reports are made on what is regarded as a conservative basis, making due allowance for the peculiarities in the various statistical series that were utilized. Perhaps different projections would be made if data differing in quality or definition were available, but these projections can be interpreted only in terms of the statistical materials currently available. It may seem that this is laboring the obvious; but projections, for example, of gross national product or industrial production that have been made in the past may have been in error not because of an error in assumptions or in technique, but because the underlying data and methods of measurement of these series changed between the date on which a projection was made and the period which it covered. Some of these differences are of significant magnitude, as analysts have discovered in the past.

Third, these projections are not based upon any rigid mathematical system of equations. Projections based on correlation between various parts of gross national product might be seriously in error in a period in which the major factor is a displacement of the economy from a normal free system toward an economy dominated by defense requirements. There is the further fact that as yet no mathematical technique and no statistically derived set of projections can be trusted without detailed investigation of the possible deviations from normal relationships.

Fourth, it must be made clear that these projections, both as to gross magnitude and direction, as well as the detailed calculation of the different segments of the budgets, have been influenced by considerations of risk; that is, to the danger that errors in estimating probable economic forces might lead to the design of programs not suitable to the economic conditions that actually develop.

For example, in *The Economic and Political Hazards of an Inflationary Defense Economy*, published last February, and in the report of August, *Inflation Still a Danger*, both published by the Joint Economic Committee, it was assumed that personal savings would amount to 5 or 5.5 percent of disposable personal income. Some analysts pointed to a savings rate of over 9 percent for the second quarter of 1951 and asked why a higher rate was not assumed in August. Various reasons had been advanced earlier in 1951 as to why savings would be higher than 5 or 5.5 percent. Under some circumstances the assumption of a higher savings rate would be the only defensible position. But in the case of an economic budget for the Nation, which is to be transmitted by the staff of the Joint Committee on the Economic Report to the members of the committee, consideration must be given to the policy risk involved if such an assumption is substantially in error.

If a higher savings rate had been assumed, and consumers in fact saved normally, then considerable inflationary pressure would have developed. Since these inflationary pressures would be unexpected, controls probably would not have been adequate to handle them. On the other hand, if a lower savings rate were assumed, which seems more normal in times of high employment, and in fact consumers do save more than this proportion, then the result would be price stability or possibly some price declines. To the extent that policy is based on such a conservative assumption as to savings that a deflationary pressure develops, the situation can be relieved by legislative and administrative relaxation of some of the anti-inflationary controls.

Other examples could be cited. In making assumptions, whichever assumption carried the least risk, if used as a basis of policy, was chosen as the basis for these projections. This is a crude way of attempting to insure that any errors made in the analysis will reinforce rather than contradict the conclusions. As this committee has previously pointed out, economic projection is not yet an exact science. For this reason, economic budget making involves unavoidable hazards. Whenever possible these should be minimized by the method used and by consultation with other analysts and technicians, both in and out of Government.

Fifth, the economic budgets prepared by this staff are based, insofar as can be determined, on generally agreed upon public policies. No attempt is made to formulate such political, military, or diplomatic decisions, nor to recommend them. These reports limit themselves to the analysis of the economic consequences of existing and proposed policies.

These projections should not be interpreted either as a recommendation or disapproval of any policy or program. The purpose of these projections is to show, on the basis of the best available advice, whether or not economic policies and programs are reasonably consistent with each other, and to show the general magnitudes of the adjustments that might be considered by the Congress.

One final word of caution: While it is necessary to use detailed and precise figures to arrive at an economic model which will check internally, it must be emphasized that the only purpose of a model, once prepared, is to show quantitatively the general order of magnitude and direction of possible major economic developments on the basis of stated assumptions.

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APPENDIX B

EXCERPTS FROM OFFICIAL STATEMENTS ON NATIONAL DEFENSE AND THE ECONOMIC OUTLOOK

The following excerpts from official documents and from testimony by officials of the executive branch of the Government have been selected because of their bearing to the committee staff materials. The excerpts have been arranged to relate as closely as possible to these materials. Testimony by non-Government witnesses and statements by economic interest groups will be found in the printed hearings of the Joint Committee on the Economic Report on the *January 1952 Economic Report of the President.* Page references to testimony refer to these printed hearings.

ESTIMATES OF TOTAL OUTPUT

Labor Force and Employment

The Economic Report of the President, January 1952

During 1952, we can and should lift employment by another 1⅓ million. Some further reduction in unemployment may be possible, despite the fact that additional defense-created unemployment in some local areas appears inevitable. (Page 3.)

The Annual Economic Review by the Council of Economic Advisors, January 1952

Defense and defense-related production will require about 2⅓ million more workers in the fourth quarter of 1952 than in the fourth quarter of 1951.

Some of these essential workers will be provided by cut-backs in the output of civilian durable goods and nondefense construction. Allowing also for some lengthening of working hours, and a modest increase in productivity, it seems that an increase in total civilian employment of about 1⅓ million would be required to service the primary defense effort, and to provide an adequate labor force for such increases in production in other sectors of the economy as might be expected in the light of probable increases in incomes and demand. The small possible addition of workers through further reducing unemployment is about counterbalanced by the probable withdrawal of manpower to enlarge the Armed Forces. (Page 106.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952

The objectives that guided our manpower policies in 1951 have proved sound, and will continue to be followed in 1952. These objectives are—

1. To utilize more of the present labor force on defense jobs and meet the additional needs of defense production by expanding the labor force as needed from among women, older and retired workers, and handicapped persons.
2. To provide needed skills by training more workers and by utilizing existing skills—including those of minority groups—more efficiently.
3. To maintain labor standards at their current high level and strengthen industrial health and safety programs.
4. To provide sufficient military manpower without stripping defense industries of irreplaceable skilled manpower or depriving the country of trained and educated manpower in the future.
5. To minimize migration of workers by placing defense contracts in areas where labor is already available.
6. To provide adequate housing and community facilities and services in localities where needed to accommodate defense workers, military personnel, and their families. (Page 28.)

During the coming year, as further cut-backs in civilian goods take effect, more men and plants may become temporarily idle. I urge defense industries to locate, shift their work, or subcontract in areas where skilled manpower and plant capacity are available. (Page 31.)

From the standpoint of the civilian manpower supply, military manpower procurement will continue to limit the direct flow of young men from school into the labor market. However, this loss will be compensated to a considerable extent in the coming months by the return movement of older and generally more experienced men from uniform into civilian jobs, particularly from the ranks of the reservists. (Page 32.)

It is our hope that most labor needs may be met from local labor supplies in 1952, but it is evident that more migration will be necessary to fill the requirements of atomic energy plants, mining, and other activities at relatively isolated locations. (Page 33.)

Output

The Annual Economic Review by the Council of Economic Advisers, January 1952

Military requirements for the major metals will increase through most of 1952 and at their peak will absorb roughly one-fifth of the steel supply, one-third of the copper supply, and about half the supply of aluminum. It is probable, however, that with large increases in supplies, these proportions will fall substantially in 1953. Thus the main materials impact, and the main economic impact, of the military production program probably will come during the next 12 months. (Page 98.)

* * * it should be feasible within the year to lift the annual rate of total output, for defense and civilian purposes combined, by at least 5 percent, or about $15 to $20 billion. About two-thirds of this increase, or at least $10 billion, should be a net gain in the area of durable goods, including construction." (Page 113.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952

With a total of approximately $1.3 billion in unfilled orders for machine tools on the books, new orders are still coming in faster than tools are being shipped. However, shipments are now at the annual rate of about $800 million and are expected to rise to a level of approximately $1.25 billion in the third quarter of 1952.

At the current rate of production, the backlog of unfilled orders amounts to 22 months of work. On some of the individual tools that are most urgently needed, however, delivery schedules extend as far as 3 or 4 years into the future. (Pages 9–10.)

Steel scrap is today in critically short supply. In most cases, steel producers' inventories are down to the level of a few days' consumption.

To support steel production at capacity, 3 million tons of scrap a month must be supplied to the steel mills. (Page 13.)

The United States has now reached the point where its supplies of high-grade domestic iron ore must be supplemented by increased imports and expanded production of our lower-grade ores.

Approximately 116 million gross tons of iron ore were consumed in 1951, and this will rise to about 127 million tons in 1952 and 139 million tons in 1953. While domestic supplies of high-grade iron ore are ample for the immediate future, they will begin to decline not later than 1956. (Page 14.)

The huge new sulfur deposits discovered near New Orleans in 1951 should yield 500,000 tons per year, an addition of almost 8 percent to the total current output, by late 1953. (Page 16.)

In expanding domestic sources, we are using the powers granted by the Defense Production Act to contract with prospectors and mine operators to explore for new mineral deposits * * *.

More contracts have been approved for lead and zinc exploration than any other commodity group, with tungsten next in number. (Page 16.)

Government aid to the copper industry during 1951 * * * will bring results by 1953 and 1954. * * *

Unassisted domestic supply of copper rose by 40,000 tons during 1951, but a significant rise in unassisted domestic supply is not expected in future years, because of the exhaustion of mines now in production. (Page 16.)

Supply of magnesium in 1952 is expected to be sufficient to meet defense requirements and permit some additions to the stockpile, but will fall short of civilian needs. (Page 17.)

The domestic tungsten mining industry, which closed down almost completely after World War II, is now being revived through Government-guaranteed floor price arrangements. (Page 17.)

These measures should yield an additional 50,000 tons of zinc in 1952 and, in 1953, a further increase of 150,000 tons beyond the 1951 production of over 1 million tons. (Page 17.)

Production of titanium in 1951 reached about 600 tons, and is scheduled to reach 2,500 tons in 1952 and over 5,000 tons in 1953. (Page 17.)

The supply of uranium, the raw material which basically limits the size of the atomic energy establishment, has shown a substantial improvement. (Page 17.)

Increased production of domestic ores cannot possibly solve all of our metal supply problems. Many critical metals such as tin, manganese, cobalt, and nickel, are obtained primarily from foreign sources. Despite our substantial domestic production of copper, lead, and zinc, foreign supplies of these metals are essential to meet defense and minimum civilian needs. (Page 17.)

Robert A. Lovett, Secretary of Defense, testimony before the Subcommittee of the Senate Committee on Appropriations, February 4, 1952

One notable and uncomfortable difference between fiscal year 1953 and fiscal year 1952 and 1951 circumstances should be mentioned. Whereas in the previous 2 years the impact of the recently started rearmament program had not noticeably affected industry as a whole, it was apparent, in the case of the fiscal year 1953 military budget, that the test of feasibility of the program in the light of the shortages of certain essential basic raw materials become of cardinal importance. * * *

In fiscal year 1953 requests, however, we come up against the hard realities that the requests from the military would, in some instances, be unrealistic because of the lack of materials within the compressed period of time. In other cases the requests of the military departments would result in total military expenditures which would be excessive in the judgment of other competent agencies of the Government and which, in their opinion, would jeopardize the economy or financial stability of the country to a degree which was unacceptable and unwise.

Frederick J. Lawton, Director, Bureau of the Budget, January 24, 1952

Actually, the major determinant on this rate of expenditure, the major question in connection with the hard goods procurement, which is a substantial part of the military, is the materials allocations. That will have more effect on it than any other single factor. (Hearings, p. 97.)

Elmer B. Staats, Assistant Director, Bureau of the Budget, January 24, 1952

If I might add this: The actual procurement schedules have to be approved by Mr. Wilson. That is the real legal control that you have as to the spread which will be made of this available obligational authority in terms of expenditures. (Hearings. p. 97.)

GOVERNMENT

Federal Receipts and Expenditures

Budget Message of the President for Fiscal 1953

Expenditures are estimated at 85.4 billion dollars, an increase of 14.5 billion dollars over the current fiscal year, and 45.3 billion dollars over 1950, the last full fiscal year before the attack on Korea.

Receipts under present tax laws are estimated at 71 billion dollars, an increase of 8.3 billion dollars over the current fiscal year, and 34 billion dollars over 1950.

The increase in receipts will fall short of meeting the increase in expenditures.

In the absence of new revenue legislation, a deficit of 14.4 billion dollars is in prospect for the fiscal year 1953, 6.2 billion dollars greater than the estimated deficit for the current fiscal year. (Page M5.)

The Economic Report of the President, January 1952

We can and should lift our total output by at least another 5 percent, or by $15 to $20 billion. (Page 3.)

Total budget expenditures by the end of the fiscal year 1953, ending on June 30, 1953, will be running at an annual rate between $85 and $90 billion. The security effort, together with veterans' services and benefits, and interest on the national debt—both, in the main, resulting from World War II—will comprise roughly 85 percent of total expenditures in the fiscal year 1953. (Page 12.)

For the fiscal year 1952, the total of Federal expenditures is estimated at approximately $71 billion, and receipts at about $63 billion. While the resulting deficit is undesirable, it has not prevented effective economic stabilization during the past 10 months. But with expenditures for security programs rising sharply, a dangerously large deficit of close to twice that size is estimated for the fiscal year 1953, if there is no additional taxation. Even with the additional taxes that I am recommending, the deficit will remain large, until the security program has passed its peak and tapers off, as we hope it can do in about 2 or 3 years. (Pages 12–13.)

A budget deficit of about $8 billion is expected for the current fiscal year ending June 30, 1952. This is expected to be followed by a budget deficit approaching twice this size for the fiscal year 1953, unless further vigorous action to raise taxes is taken very soon. (Page 21.)

The Annual Economic Review by the Council of Economic Advisers, January 1952

The nondefense areas do not contain the "fat" often attributed to them. Federal expenditures for all programs except national security, veterans' benefits, and interest on the national debt will be about 65 percent higher in the current fiscal year than in the fiscal year 1940. In comparison, the index of wholesale commodity prices is nearly 130 percent higher, and the consumers' price index almost 90 percent higher. Despite a rapidly expanding population and a great increase in the total product of the economy, Government programs which are directed toward servicing the general needs of the people and building up our natural resources have been held down. (Page 131.)

As a result of the expected further increase in national security expenditures, the annual rate of total Federal expenditures will rise to between $85 and $90 billion by June 30, 1953. For the fiscal year 1953, under existing revenue legislation, a budget deficit approaching twice the size of the current year's budget deficit is indicated. (Pages 132, 134.)

John D. Clark, Council of Economic Advisers, January 23, 1952

If the peak of expenditure reached at the end of this year runs through calendar 1953 and most of calendar 1954, and is 65 billion dollars, and we find one stage of our work completed and we drop back to a maintenance basis, if it is 20 billion dollars less, that still leaves 45 billion dollars a year that we are spending on the military machine and on the related security programs. If total expenditures have risen to 95 billion dollars—by another 10 billion dollars, which would be 75 for the security program—and then it drops back to 45 billion, the drop is 30 billion, and I do not think we need spend time figuring just which of those is the most likely because the problem is created by either. It is created by a drop of 20 billion dollars in Government spending or in a more aggravated form, of course, by a drop of 30 billion dollars. (Hearings, pp. 59-60.)

Frederick J. Lawton, Director, Bureau of the Budget, January 24, 1952

[Expenditures for 1954] will be at least as high as this year's $85 billion. It [the $71 billion estimated receipts] is based on calendar year 1952 personal income of $265 billion and corporate profits before taxes of $46 billion. That represents national income for the fiscal year 1952 between $280 billion and $285 billion and in the fiscal year 1953 between $295 billion and $300 billion. July 1951 prices were the basis upon which we made our estimates. (Hearings, pp. 99, 101.)

The very sharp rise in deliveries and expenditures for hard goods and construction, especially during the current fiscal year, with a continuing rise at a slower rate in 1953 and a slight decline indicated late in 1954. In a program of this size, it should be recognized that a lag or speed-up in anticipated deliveries of hard goods might cause a shift of several billion dollars of expenditures from one year to another. The timing of the increase and of the later possible decrease is, therefore, peculiarly difficult to forecast, but the peak level shown represents our best current judgment. (Hearings, p. 110.)

On all going programs which are subject to budgetary control, two primary tests have been applied: (1) Contribution to the defense effort, and (2) adequacy of present staff to handle the minimum prospective workload. Increases have been allowed for certain programs contributing directly to the defense effort, although they are not major programs.

In addition to the electric power and the defense housing programs which I already mentioned, these include aid for schools in defense areas, the port security program of the Coast Guard, the internal security program of the FBI, and several smaller programs. In some other cases where the Congress had made arbitrary percentage reductions in the 1952 appropriations, the demonstrated workload made it necessary to recommend at least a partial restoration of the previous cut in order to furnish the minimum level of services required for orderly government. * * *

As the President indicated in the budget message, reductions have been made in programs which could be deferred—for example, in flood control, reclamation, and river and harbor works not involving urgently needed power facilities. Expenditures for rural electrification and rural telephones have been further reduced. All major housing and community development programs, except those in critical defense housing areas, have been held far below the annual levels authorized by the basic legislation. Expenditures for these and many other programs will be considerably less than those which would be clearly justifiable in more normal times. (Hearings, p. 112.)

Charles E. Wilson, Director of Defense Mobilization, January 26, 1952

The program we have adopted as reflected in the proposed 1953 budget, calls for $65.1 billion for major national security programs, of which $51.2 billions is for the military. By projecting production schedules on this basis, I believe that by the end of calendar 1954 we will have passed the peak of expenditures needed for the program. At the same time we will have obtained very substantial increments of military strength. Unless the situation of the world with respect to possible aggression changes considerably, we should be able to cut back the programs substantially from that time forward because we will have a good position of defense. (Hearings, p. 156.)

Defense Spending

President's State of the Union Message to the Congress, January 9, 1952

Our objective is to have a well-equipped, active defense force large enough—in concert with the forces of our allies—to deter aggression and to inflict punishing losses on the enemy immediately if we should be attacked. This active force must be backed by adequate reserves, and by the plants and tools to turn out the tremendous quantities of new weapons that would be needed if war came. We are not building an active force adequate to carry on a full-scale war, but we are putting ourselves in a position to mobilize very rapidly if we have to.

This year I shall recommend some increases in the size of the active force we are building, with particular emphasis on air power. This means we shall have to continue large-scale production of planes and other equipment for a longer period of time than we had originally planned.

Planes and tanks and other weapons—what the military call "hard goods"—are now beginning to come off the production lines in volume. Deliveries of hard goods now amount to about a billion and a half dollars worth a month. A year from now we expect this rate to be doubled.

We shall have to hold a high rate of military output for about a year after that. In 1954 we hope to have enough equipment so that we can reduce the production of most military items substantially. The next 2 years should therefore be the peak period of defense production.

The Economic Report of the President, January 1952

If the world situation stabilizes, so that we can after 2 or 3 years taper off the defense program, we will then be producing enough to remove many unpleasant controls without risking inflation, and to have a higher standard of living than we had even in 1951. (Pages 3–4.)

But the defense program is still in the build-up stage; the main effort lies ahead. (Page 8.)

Government outlays for the major security programs are estimated to rise from a current annual rate of 45 billion dollars to almost 65 billion by the end of this calendar year. As a proportion of total output, the increase will be from 14 percent to more than 18 percent. (Page 8.)

Though the major expansion will take place this year, the program which I am submitting will call for a further increase in the rate of security outlays during calendar 1953. We cannot hope that security program expenditures will start declining toward a lower rate until 1954. (Page 8.)

The military program which I am submitting to the Congress calls for steady increases in military output during the next 18 months, and for continuance at a high level for at least an additional 12 months. (Page 15.)

The Annual Economic Review by the Council of Economic Advisers, January 1952

Since the aggregate demand for resources is expected greatly to exceed their supply, achievement of the goals of national economic policy requires that resources be allocated and used as efficiently as possible. If this is to be accomplished, it is of major importance that the definition of the military program—whatever its substance—be as clear and firm as feasible. Otherwise, with such a considerable portion of the total economic effort going to basic defense, it would be virtually impossible to keep the other components of the effort consistent with the military program and among themselves. It would be impossible to determine the portion of resources that would be available for the expansion of basic productive facilities, or to design policies needed to restrict private consumption and less essential private and public investment.

From the viewpoint of general economic policy, the speed of the military build-up is of similar interest. If the rest of the economy is to keep in step with basic defense and serve it properly, it is necessary both to know what the schedule of the defense program is and to achieve the goal on schedule. (Pages 39–40.)

The security program now being submitted by the President calls for a further increase in total security expenditures for goods and services from the present annual rate of $45 billion to a rate of almost $65 billion by the end of 1952. Under present plans, the maximum rate of expenditures under this program would be slightly higher, and would probably be reached late in 1953. (Page 95.)

A large element of uncertainty exists regarding the future development of expenditures under the defense program. Our present planning is based on a program which would build up strength to the required level, and continue the maintenance and modernization of our defensive equipment at that level. This may require expenditures in the fiscal year 1954 at least as high as those proposed for fiscal 1953. Thereafter, it is anticipated that expenditures will gradually decline to a substantially lower "maintenance" level. (Page 134.)

The current defense effort will be building up new backlogs for housing, for other durables, and for some types of industrial expansion, which are now being deferred to make way for the expansion of the industrial mobilization base. There is no reason to accept the gloomy hypothesis that we would do a worse job of adjustment when defense spending declines than we did after World War II, particularly since the reduction of defense outlays in the future would be far smaller in proportion to the Nation's economy than the reductions which took place between 1944 and 1947. (Page 150.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952

In the long-lead-time items which are the heart of the military program—the complex new aircraft and tanks—little of this activity in military production is yet reflected in delivery figures. Much of the work now being done will not appear in the delivery column until late 1952, 1953, and even later years.

But, even at this point in the program, we have completed the job of accelerating the production rates of a number of our major military items—including two aircraft that have been in production longest, the "superbazooka," and several types of radar—as well as a variety of minor and easier-to-get items. Production of these items is now being leveled off or in some cases reduced.

By the end of 1952, we should have reached the leveling-off point in all of our major items of military equipment except aircraft. For aircraft, 1952 will see the putting in place of the tools, facilities, and materials which will guarantee the peak periods to come later. (Pages 7–8.)

Federal expenditures for national security will increase during the next 12 months to an annual rate about $20 billion higher than at present. Although revenues will increase at the same time, as the new tax laws come fully into effect and as income expands still further, we will have to cope with the inflationary impact of a growing cash deficit unless adequate amounts of new taxes are enacted. (Page 35.)

Third Report of the Attorney General of the United States Prepared Pursuant to Section 708 (e) of the Defense Production Act of 1950, December 19, 1951

Procurement planning and scheduling require that the Armed Forces determine essential military needs and the order of priority in which such needs shall be met. This information should then be presented to the appropriate civilian officials for a review based on the latter's knowledge of the present and potential ability of our economy to produce and of the effect which such defense production will have on the competitive economy. Only by this interplay and correlation of military and civilian needs and availability of resources will it be possible to eliminate the imbalances which otherwise will dominate procurement. Only in this manner will it be possible to carry out the military program without unnecessary strain upon the civilian economy. (Page 8.)

The very magnitude of our current military program and the uncertainty of its duration or tempo warn us that our civilian economy faces fundamental dislocations in production, distribution, and employment. Many of these dislocations can be prevented entirely and the effects of others can be minimized if adequate programing and scheduling of military requirements are undertaken now. (Page 9.)

The impact of military procurement upon raw materials, semifinished products, machine tools, labor supply, and other essentials of production and distribution will determine in many cases whether large numbers of producers in particular industries remain in business, or whether they must close down and withdraw from the Nation's production potential. The dependence of both military and civilian requirements upon the same materials, tools, labor, and other necessities of production and distribution necessarily will create stresses within our economy which can be dealt with effectively only through informed planning and scheduling of military procurement. (Page 12.)

Robert A. Lovett, Secretary of Defense, testimony before the Subcommittee of the Senate Committee on Appropriations, February 4, 1952

* * * the Department of Defense expended, on its own account, $19.2 billion in fiscal year 1951; during the first 7 months of fiscal year 1952, the Department has expended over $20 billion. It is anticipated that by next June expenditures during fiscal year 1952 for the Department of Defense will be approximately $40 billion. These figures are exclusive of expenditures for the military portion of the foreign-aid funds.

As of January 31, 1952, approximately $75 billion has been obligated of the $108 billion appropriated for fiscal year 1951 and fiscal year 1952. Part of the unobligated $33 billion represents funds for aircraft, ships, and other major items of procurement for which contracts will be let and funds obligated during the second half of the year. Another part of the unobligated balance also represents current operating expenses that are normally obligated month by month; for example, military and civilian pay, contracts for services at posts, camps, and stations, and similar items. Except for accounts necessarily reserved for subsequent engineering changes, substantially all fiscal year 1952 and prior-year money will be obligated by the end of this fiscal year. * * *

The initial budget requests submitted to my office by the three armed services, based on military requirements and early readiness dates, totaled approximately $71 billion, exclusive of the requirements of the military portion of the foreign-aid program. As a result of the review conducted by the Office of the Secretary of Defense with the three military departments, and as a consequence of the screening process at that stage of budgetary development, the original estimates in their rough form were reduced to a finished budget of approximately $55 billion. * * *

Subsequent to our budget submission to the Bureau of the Budget and the President, certain further adjustments were made both in terms of new obligational authority and in terms of expenditures. As a result of these adjustments, primarily a stretch-out of the period in which readiness is to be developed, the funds being requested in the budget submission before you call for $52 billion in fiscal year 1953, rather than the $55 billion figure in our initial submission to the Bureau of the Budget and the President.

Karl R. Bendetsen, Assistant Secretary of the Army, testimony before the Subcommittee of the Senate Committee on Appropriations, February 5, 1952

A major postwar development is the world-wide Army rebuild program. Inaugurated to rehabilitate the countless tons of equipment and supplies left scattered about the earth after World War II, this program has borne full fruit with the exigencies of the Korean conflict and the return of our troops to Europe. Carefully prepared estimates from each technical service and from each field command show that their activities under this program have actually returned about $9½ billion worth of equipment to the supply line at a cost of less than $1½ billion. This means about $7 saved in terms of new equipment for every dollar spent.

With this background in mind, I now turn to the major programs for which our 1953 budget has been prepared. First, in the field of procurement and production, the appropriation requested totals $3,685 million—some $6.4 billion less than in fiscal year 1952. We now expect that the volume and rate of production will become satisfactory sometime this spring, or about a year and a half after the Army's procurement effort went into high gear with the second supplemental appropriation for fiscal year 1951. This period confirms our previous experience in mobilizing industry and also confirms the importance of achieving a readily expandable production base to save many critical months of time should global war be thrust upon us.

Second, the funds requested for military personnel, $4,485 million, will support an average strength of 1,552,000 in fiscal year 1953, or somewhat less than the average of 1,565,000 expected for fiscal year 1952.

Third, I should like to add together the much smaller items in the budget to support programs such as research and development and the Reserves and National Guard, all of which total some $1,210 million. The amounts asked for these items, we believe, represent the least that can be safely allocated to provide minimum essential support. But rather than dwell on the details of these programs, each of which will be discussed at length in later hearings of the committee, I should now like to turn to the last and largest single item in the budget, the requested appropriation of $4,820 million for maintenance and operations. Despite the fact that the Army has increased its size and strength over last year and has maintained a substantial force in combat in Korea, we are able to reduce our request for appropriations to cover our maintenance and operations by over $1 billion, or nearly 20 percent. * * *

Thomas K. Finletter, Secretary of the Air Force, testimony before the Subcommittee of the Senate Committee on Appropriations, February 5, 1952

The Secretary of Defense has said to you that, after the recommendations of the Department of Defense to the Bureau of the Budget and the President, certain further adjustments were made for the purpose of keeping expenditures for the military departments and for military end-items financed under the Mutual Security Program below the figure of $60 billion during fiscal year 1953. The result was a stretch out in the period in which readiness is to be attained. * * * This affects all three of the Air Force's front-line operations of which I have spoken.

The stretched-out program does not attain the number of units with modern equipment as early as the military chiefs of the services, from a purely military point of view, consider desirable. However, as the Secretary of Defense has said to you, the budget before you represents a judgment by the executive branch of the Government which takes into consideration all the factors involved—not just the military factors—and arrives at a balance which appears best for the long term security of the nation. * * *

I want to emphasize next that a large part of this build-up of the Air Force is on capital account. We are asking for money to get going on an increase of about 50 percent in the Air Force's combat wing strength.

It follows that the level off period, once the force is built, would be at a lower annual cost than that asked for during the capital build-up period.

Leon Keyserling, Chairman, Council of Economic Advisers, January 23, 1952

The projected size of the defense program is fairly clear, at least, for the next calendar year, rather independent of the exact size of the appropriations for the fiscal year 1953.

The computation is that the now projected defense program will lift the level of spending or take the economy for that purpose by about $20 billion between the annual rate now and the annual rate at the end of this year. (Hearings, pp. 10–11.)

Frederick J. Lawton, Director, Bureau of the Budget, January 24, 1952.

We have no control directly over expenditures. Our controls are over obligational authority and over the entering into of contracts under the apportionment system for most agencies.

The problem is in the long-lead-time items. For example, in the case of aircraft the average lead time, based on a recent study that the Defense Department has made, is 24 months. That means that to get deliveries by a date in the future you have to provide the obligational authority in the form of an appropriation now in order that you may let your contracts, so that the suppliers can begin work and, ultimately, deliver that 2 or 3 years from now. (Hearings, p. 93.)

For the military and military-assistance programs together, expenditures in the fiscal year 1953 are estimated at $58 billion. Of this total, slightly more than half will be spent from funds authorized in 1952 and earlier years.

One significant aspect of the budget this year is that while expenditures for these two programs will rise by about $15 billion over the 1952 level, new obligational authority will decline by about $9 billion. This reflects the fact that with funds already appropriated we expect to reach peak production rates for most major military items by the end of the fiscal year 1953. (Hearings, pp. 109–110.)

As soon as mention is made of a "peak" military production, the question arises as to the long-range cost of our military program on a maintenance and replacement basis. You recognize, of course, that we will not be operating on such a basis as soon as we pass the peak, because procurement of some hard goods, such as aircraft, will still be rising as we build toward 143 wings. The other will be offset by a greater decline in hard goods expenditures. Even after we complete our build-up, the size of the military budget is almost impossible to predict at this time, because it involves so many military and strategic decisions which cannot now be evaluated.

The level of active military strength will depend on two things: (1) the international situation at the time with the resulting necessity of deploying men in various spots around the world; (2) the possibility of decreasing the number of active forces because of a well-trained reserve resulting from universal military training and the present rotation policy.

Given an assumption on the level of military strength, personnel costs might be estimated fairly closely. Procurement costs for this strength, however, cannot be estimated as closely for two reasons: (1) the expenditures for fuel, lubricants, spare parts, et cetera, will depend on the extent of use of military equipment, which can vary considerably depending on the duration and type of military training for both active members of the Armed Forces and reservists; (2) the variation of possible costs for modernization and replacement of equipment can be very large—for example, how much shall we spend for modification of ships, planes, and tanks to keep them up to date with the newest technical development, both offensive and defensive, or if we are unable to modify existing equipment, how often will we have to replace it? Obviously expenditures can differ greatly if we replace every 2 years or every 10 years—or if new weapons permit economies. (Hearings, p. 110–111.)

Roger L. Putnam, Administrator, Economic Stabilization Agency, January 25, 1952

This coming year is going to be difficult. It is going to be a very difficult one for inflation controls, because we are going to be pumping into this economy billions upon billions of dollars more for defense purposes than was spent last year. The annual rate of defense spending a year from now will be almost $30 billion more than the rate in the last half of 1950. Let's look at what $30 billion represents—it's more than this country spent in 1950 or 1951 for all consumer durable goods, including automobiles.

The increase in actual defense expenditures in 1952 over 1951 will be somewhere in the neighborhood of $20 billion, and we are adding that whole thing extra into the economy this year. That is a great deal, and that is why I don't think we have seen the full pressure of inflation. (Hearings, pp. 122–123.)

I think that our military aid abroad is helping. The attempts of our allies to impose their own military spending on their own strained economics—strained much more than ours—that is causing them more inflationary pressures than we have.

Every bit of aid that we can give them—I get this impression from his report and from some other things, too—helps them to manage their own inflationary problems and thus to get along on this common program of defense. Their inflationary problems, particularly in France, are much worse than ours because their economies were more strained to begin with. Trying to add on military preparedness made the pressure worse. Anything we can give to them is a help to them to rearm. I get that impression very definitely. (Hearings, p. 143.)

We have got to strengthen the whole free world, and we have got to strengthen them economically, which is just as important as strengthening them militarily. If our economy goes to pieces, the Kremlin gets what it wants without having to do anything else. (Hearings, p. 144.)

Charles E. Wilson, Director of Defense Mobilization, January 26, 1952

I just do not believe you can effectively spend more money on modern weapons [than is being done now] unless you plan for it for a considerably longer period of time than this Nation has planned for it. (Hearings, p. 153.)

The rate of delivery to the military, including construction, has tripled since Korea to a figure of about $2 billion a month. That rate will have to be doubled over the next year to close to 4 billion a month. It will not be easy, nor can it be done without consuming vast amounts of materials, most of them scarce at the present time. (Hearings, p. 167.)

I think we have taken a pretty much of a middle-of-the-road course, and that it is a road that we can go down and still have a sound economy, if we watch our step. I believe that.

I do not believe if you go any faster, much faster, you can have that. I do not believe if you go much slower you can have the security that the people have a right to expect. So I think this is a middle-of-the-road course. (Hearings, p. 170.)

BUSINESS

New Plant and Equipment Expenditures

The Economic Report of the President, January 1952

Steelmaking capacity, already above 108 million tons, is to be expanded to more than 120 million by 1954, with related expansions of iron, coke, and ore-producing facilities. The aluminum program should double the mid-1950 rate of output by 1954. Electric power capacity is scheduled to expand 13 percent this year, and a 40-percent expansion by the end of 1954 is proposed. Petroleum refinery capacity is scheduled to expand about 14 percent between now and the end of 1953. These and the other high-priority Government-assisted industrial expansion programs will absorb this year about a quarter of the supply of copper available for civilian uses, and about one-third of the civilian supply of steel. (Page 10.)

The total of private investment in construction and producers' equipment, which was close to $50 billion in 1951, should be held in the neighborhood of $42 to $44 billion in 1952. (Page 10.)

The Annual Economic Review by the Conncil of Economic Advisers, January 1952

To meet war preparedness objectives, and to work toward the substantial elimination of basic shortages by 1954—when, so far as can now be judged, military production will have passed its peak and be on the way toward a substantially lower maintenance level—investment in Government-aided industrial expansion programs will have to increase further. (Page 108.)

Although some reduction in highway expenditures has to be made in the immediate future, higher levels of construction and maintenance activity should be resumed as quickly as possible. (Page 110.)

It seems probable that the major factor limiting the size of business investment will not be the desire of business concerns to expand, but the availability of scarce materials and machine tools. Material shortages may force business investment in plant and equipment to contract somewhat by the latter part of 1952. Commercial and residential construction also is being reduced. (Page 139.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952

The steel industry, which was already expanding when the mobilization program began, has been producing at the rate of 108 million ingot tons compared to a rate of less than 100 million ingot tons at the time of Korea. Additional capacity now under construction will enable the industry to produce at a sustained level of 120 million ingot tons by 1954.

In order to support this amount of steel capacity, the target for blast furnace capacity is being raised to 85 million net tons by the beginning of 1954—an increase of 3.1 million net tons over the capacity in operation or under construction at this time. Still further expansion of blast furnace capacity may be necessary, depending upon our ability to sustain the collection of scrap at a high level.

The expansion program for byproduct coke ovens is set at 84 million net tons by the end of 1953, an increase of 10 million net tons over the pre-Korea capacity. (Page 13.)

Aluminum production has now reached an annual rate of 860,000 tons a year, compared to the 735,000-ton rate of June 1950. By 1954, the aluminum expansion program will result in production at over twice the annual rate of mid-1950, and 12 times the rate of 1939. (Page 15.)

The total expansion of power facilities proposed for the next 3 years is aimed at an increase of 40 percent over the capability at the end of 1951. This would bring the capability up to 105 million kilowatts by the end of 1954. The schedule calls for adding 9.6 million kilowatts during 1952 at an estimated cost of approximately $4 billion. (Page 15.)

An expansion goal for nitrogen production of 2.9 million tons in 1954–55 has been set, primarily to provide the additional fertilizer needed to increase farm production.

The new goal is 80 percent higher than the 1.6 million tons produced in 1950–51. (Pages 15–16.)

We are aiming to increase refining capacity from 7 million barrels a day to 8 million barrels a day by the end of 1953. (Page 16.)

Charles E. Wilson, Director of Defense Mobilization, January 26, 1952.

Mass production plants are being finished up, many have been finished, others are being finished up, and I think by the end of this year the most important to the security of the country will be pretty well in place. * * *

That does not apply to all our raw material expansion, Senator. Some of the raw material, or rather some of the metallics, those shortages will not be overcome until late 1953 in the case of aluminum; some of them will not come in until then; 1954 in the case of copper expansions; but for the building of some of the new equipment, many of the plants are beginning to come and will continue to come in this year. (Hearings, pp. 155–156.)

The completion of this program will increase the annual output of steel by an additional 12 million tons; of aluminum by an additional 700,000 tons; of power capacity by an additional 30 million kilowatts, with corresponding increases in production of other materials. (Hearings, p. 159.)

Nonfarm Residential Construction

President's State of the Union Message to the Congress, January 9, 1952.

I think most workers understand that decent housing and good working conditions are not luxuries, but necessities if the working men and women of this country are to continue to outproduce the rest of the world. * * *

We must move right ahead this year to see that defense workers and soldiers families get decent housing at rents they can afford to pay.

The Annual Economic Review by the Council of Economic Advisers, January 1952

Although 6 million new houses have been produced since the end of World War II, demand remains at a high level because of backlog requirements, high living standards, and a high rate of family formation. Credit restrictions introduced in 1950, which were relaxed by Congressional action in September 1951, plus a stringency of funds for Government-insured mortgages in the latter part of 1951, helped to reduce the number of starts of nonfarm housing from 1.4 million in 1950 to about 1.1 million units last year.

In 1952, a large net migration will be needed to meet the labor requirements of areas containing defense establishments or military installations. New housing accommodations will be required for a large proportion of these workers, and a Federal program for aiding private construction of about 200,000 units is in operation. In addition, sufficient defense housing can be provided only if the Government assists in financing necessary community facilities and actually builds houses in some areas. Besides the unusual strains on housing capacity arising from movements of defense workers, there is a need for new housing to take care of the 600,000 to 700,000 new families which will be formed next year. Although part of these families can be housed in units vacated by families moving to defense areas, it is estimated that, for the economy as a whole, 800,000 to 850,000 new nonfarm dwellings would be needed in 1952 merely to maintain present housing standards.

It is hoped that this number of units can be produced in 1952. The outlook for materials supplies indicates that substantial further economies in the use of scarce materials in housing construction will be required if this goal is to be reached. (Pages 118–119.)

Leon Keyserling, Chairman, Council of Economic Advisers, January 23, 1952

Consequently, our estimates of housing demand, for that matter, in most of the years between 1947 and 1950 were higher than the estimates of the industry, because the industry's computations were made mostly upon two things—backlog demand and prewar norms. Our estimates placed more stress upon the current productive power of the economy, the reasonably good distribution of income, and demand as a reflection of the people's standards of living at that level of production and income.

In 1947, when we first projected our housing estimates—and they envisaged one million to a million and a half new nonfarm units per year for a decade—a tremendous dissent went up. Strangely enough it went up from the building industry, which said that this would satiate the market, and that any figure over a million was out of this world.

Now, after having built as high as a million and a quarter houses in 1 year, when housing was cut back to 850,000, which was higher than the highest level ever made before World War II, they regarded that as phenomenally low. (Hearings, pp. 68–69.)

Business Structure

The Annual Economic Review by the Council of Economic Advisers, January 1952

A mobilization effort necessarily creates serious problems for small business as a class. Small business firms are more vulnerable to material shortages than larger firms, because their profitability is generally more severely affected by reductions in their operations, their output more narrowly specialized, and their financial position weaker. The industries in which a mobilization effort calls for major increases in output and capacity are, in large part, those in which small-scale production is the exception rather than the rule; and, in general, the facilities of small firms are less easily adapted to defense production.

The increased stringency of materials supply in 1952 will intensify the need for many firms, particularly smaller ones, either to get into defense production or to redesign their products in such a way as to make much less use of scarce materials. It will no longer be possible on so extensive a scale to allot such materials to nonessential production in cases where the only justification is that it permits a firm to continue operations.

Quite aside from the need to alleviate distressed conditions caused by material cut-backs, it is obviously in the national interest that there be a greater diffusion of defense production in our industrial structure. It is advantageous to spread arms production experience. Small plants have a production potential which should be preserved against the day when it would be needed to support total mobilization. Production bottlenecks may be eliminated by a more effective utilization of small manufacturing facilities. Moreover, the mobilization program should not be permitted to impair competition. (Pages 115–116.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952.

The newly organized Small Defense Plants Administration has started a program to increase further the contribution to the defense effort by small business. Procedures have been developed jointly with the RFC to expedite loans to small business where recommended by the Small Defense Plants Administration. In addition, arrangements have been made to represent the interests of small business in computing requirements of materials in short supply. (Page 25.)

Third Report of the Attorney General of the United States Prepared Pursuant to Section 708 (e) of the Defense Production Act of 1950, December 19, 1951

The burden which will be imposed upon our economy and upon our people during the coming years will, in important respects, be greater than that of wartime. For, in a nation at war, definite determinations can be made concerning goals of production and the extent to which civilian production and supplies need be curtailed and rationed. In wartime, enterprises can make decisions and guide their production efforts into well-defined channels.

During a period of partial mobilization, small-scale enterprises are least equipped to adjust themselves to the curtailment of vital materials and to the accompanying allocations, priorities, and price and wage controls. As more and more basic materials are diverted from the civilian market to military uses, the small enterprises whose operations are not diversified and who do not hold defense contracts will shut down and disappear from our economy unless great care and intelligent planning are exercised. (Pages 17–18.)

Mobilization decisions made on an unplanned and uninformed basis necessarily weigh the scales heavily on the side of large-scale business. It is enterprises of that type which have assured sources of basic materials, skilled labor forces, machine tools, finances, and the variety of operations which make it possible for them to survive when one or more products can no longer be produced. As a result, the unplanned decisions of Government affecting procurement for defense tend to foster monopoly and concentration and to destroy the small and medium-sized business firms which are the bulwark of our competitive economy. (Pages 18–19.)

CONSUMERS

Consumer Goods and Services

The Annual Economic Review by the Council of Economic Advisers, January 1952

With the security program now scheduled, and reasonable increases in total production, consumer supplies will be adequate to meet essential needs in 1952. Since there will be cut-backs in the output of metal-using durable goods, any increased demand arising from a higher income total will be manifested mainly in increased production of nondurable goods and services.

The output of textiles, food, and many other products can be expanded without interfering with the defense program. Judging from peak rates of output in 1950 and 1951, production of textiles, apparel, shoes, and furniture could be raised by over 25 percent from recent levels, and production of carpets could be doubled. The food outlook also is relatively good and should permit some rise in food consumption, with the largest increases in the more expensive items such as meats and frozen fruits. The capacity for synthetic fibers is being increased, which will further supplement the supply of cotton and wool in 1952 and 1953.

In major metal-using consumer durables, the outlook is quite different. Production of passenger cars in the first quarter of 1952 will be between 900,000 and 1,000,000 units, or a little more than half the average quarterly rate in 1950. Allocations for steel and other metals for use in major household appliances, such as ranges, washers, and refrigerators, and for radio and television sets, are also being reduced to 50 percent or less of the rate in the base period, which in most instances is the first half of 1950. However, absorption of stocks of materials and substitutions will temporarily permit somewhat higher rates of production. (Pages 117–118.)

Income, Expenditures, and Savings

The Economic Report of the President, January 1952

Consumer spending is the most uncertain factor determining the general inflationary outlook for 1952. While it is possible to make a reasonably satisfactory estimate of the volume of new business investment in plant and equipment this year, since it will be limited by the allocation of scarce materials, there is no certainty at all in any estimate of consumer spending. For the last three quarters of 1951, consumers have voluntarily elected to buy at a level no higher, in total physical units, than in the period before the initial attack in Korea. Instead, they have added to their personal saving much of the large increases which have taken place since that time in their income after taxes.

The exceptionally high rate of personal saving has not been due to any general lack of goods available to consumers. Even in the case of durable goods which have been cut back in production by allocation orders, such as automobiles and major household appliances, no market pressure has been noticed since the first quarter of 1951. Textiles and some other types of soft goods have been produced at a rate well below capacity, not on account of any shortage of labor or materials, but because consumer demand has fallen off in many lines. Manufacturers and retailers have been struggling with overlarge inventories, which in many cases have not yet been brought down to the levels they desire.

It is impossible to foresee how long this extraordinarily high level of personal saving will continue. It is not even certain that it may not be raised. But national economic policy may safely be based upon these assumptions: the progress of the security program will bring an increase in personal incomes and enlarge the potential market demand of consumers; the longer consumers elect to save rather than to buy goods, the larger will become the accumulated fund of liquid assets; and the fund of liquid assets, when coupled with the higher current income of consumers, will add greatly to the potential consumer demand, and may increasingly tend to turn potential demand into abnormally active buying. (Page 20.)

The Battle for Production, Fourth Quarterly Report of the Director of Defense Mobilization, January 1, 1952

No one can predict how consumers will divide their money between spending and saving in the coming months, but the present rate of saving is unusually high and a sudden rush of dollars into the market, from whatever cause, could bring about the renewal of inflationary pressures that we have feared. (Page 5.)

John D. Clark, Council of Economic Advisers, January 23, 1952

If we drop controls today, we are putting ourselves in a position where, if the consumer attitude changes, if consumers, having increasing income, as they are bound to have as Government expenditures expand, decide that they are going to begin to buy goods rather than hold funds, you are going to have an immediate impact of vigorous inflationary pressure upon the markets that will cause those prices to spurt forward, and you will come along weeks later trying to catch up with that. Perhaps once again we will be under the delusion that we can get some rollbacks when we do get under way, although I do not know how anybody now thinks a rollback is possible. The only safety in a situation where we know that many of the most important consumer durable goods are going to be restricted in output is to maintain the series of controls which we now have. If the markets are permitting prices to drop away from under them, be happy about it, but do not use that as an excuse for discontinuing the system and leaving us helpless if there should be another sudden resumption of what you call just normal buying by our consumers. (Hearings, pp. 72–73.)

POLICIES AND PROGRAMS OF THE FEDERAL GOVERNMENT

Fiscal Policy

Budget message of the President for fiscal 1953

A pay-as-we-go tax policy is difficult to regain once we fall behind.

We cannot now undertake, on a strict pay-as-we-go basis, the dual job of making up for the inadequate revenue legislation last year and meeting the increases in expenditures immediately ahead. However, there is still time to insure more nearly adequate financing for the defense program as a whole. In my judgment this calls, at the very least, for the amount of additional revenue by which last year's legislation fell short of my recommendations.

The need for improving the equity of the tax system gives me as much concern as the need for revene. The tax laws should not be used as a means of granting special favors or hiding special subsidies. Glaring injustices in our tax laws should be eliminated before those with modest means are asked to shoulder additional burdens. (Page M10.)

Prudence demands that we return to a pay-as-we-go policy as quickly as practicable. In the meanwhile, we must be continually alert to threats to economic stability and be prepared to deal with the situation as it develops. (Pages M10–M11.)

The Economic Report of the President, January 1952

I urgently recommend that the Congress, as a minimum, provide additional revenues in the amount by which last year's legislation fell short of my recommendations. This can be achieved by eliminating loopholes and special privileges, and by some tax rate increases. While new tax legislation along these lines could scarcely affect the deficit for the current fiscal year, and would not restore a balanced budget in the fiscal year 1953, it would make a major contribution to the Government's budgetary position and to the stabilization program. The additional tax revenue will help to minimize borrowing by the Government from the banks. Borrowing from banks, more than borrowing from any other source, tends to enlarge the spending stream and thus to increase inflationary pressures. (Page 21.)

The Annual Economic Review by the Council of Economic Advisers, January 1952

Provided the national security programs follow the pattern now indicated, rate increases in existing tax sources and the proposed improvement in the tax structure would be adequate at high levels of employment to yield a surplus in budgets designed to support the ordinary Government functions, plus the cost of the expanded Military Establishment when it reaches maintenance levels.

With the additional revenue which might be obtained from carrying through the above suggestions, the margin of excess of budget expenditures over receipts would be reduced to about 10 billion dollars a year during the period of 1 to

2 years when budget expenditures will be at the peak level now contemplated. A considerable portion of this deficit, however, would not result in an addition to the debt held by the public, but would be absorbed by the excess of some 4 to 5 billion dollars of cash receipts over disbursements in a number of trust accounts. (Page 136.)

Third Report of the Attorney General of the United States Prepared Pursuant to Section 708 (e) of the Defense Production Act of 1950, December 19, 1951

It is recommended that the responsible military and civilian agencies introduce into procurement for our Armed Forces the planning and scheduling which will insure that we obtain all of our military requirements as we need them and at the same time preserve the health of the competitive structure of the Nation's economy. (Page 1.)

Roy Blough, Council of Economic Advisers, January 23, 1952

I think the point of view that I was trying to express, which I think is the point of view of the Council, is that we would like to see this paid to the largest extent possible currently through taxes; that under the circumstances covering expenses completely by taxes each year does not seem to be a feasible thing to do because of the speed of increases and the magnitude of increases that would be necessary, and the fact that the increases would be followed by decreases as we come down from the peak of expenditure; that we think the tax program which was asked for last year, or the amounts asked for, at any rate, ought to be provided, and we believe would largely save the Government from the necessity of borrowing additional sums from the banks; and that this program would have the highly desirable result of strengthening the tax system to the point that it could carry the longer load with a balanced budget, and possibly with a surplus.

So we feel that it is highly desirable to have some increases in taxes at this time, but that, for the reasons mentioned, it is not either necessary or desirable to try to cover the whole increase in expenditures that is scheduled to take place, if the President's budget becomes effective. (Hearings, p. 56.)

Regulatory Policies

President's State of the Union Message to the Congress, January 6, 1952

This year we ought to make a number of urgently needed improvements in our social-security law. For one thing, benefits under old-age and survivors insurance should be raised $5 a month above the present average of $42. For another thing, the States should be given special aid to help them increase public-assistance payments. By doing these things now, we can ease the pressure of living costs for people who depend on those fixed payments.

President's Message on Unemployment Insurance to the Congress, April 6, 1950

On several occasions in recent years, I have recommended that the system be improved so as to extend protection to many workers not now covered; to provide, in every State, benefits for 26 weeks ranging up to $30 a week for single persons, with additional benefits for dependents; and to increase the financial stability of the system. * * *

First, I recommend that coverage be extended to about 6,000,000 workers not now covered. The first major deficiency in the present Federal-State system of unemployment insurance is that it excludes large numbers of workers. * * *

Second, I recommend the establishment of Nation-wide minimum levels for amounts and duration of unemployment benefits, in order to correct the second major deficiency in the present insurance system—the inadequacy of benefits. * * * Benefits for single persons should approximate 50 percent of normal earnings, up to a maximum of at least $30 a week. Additional allowances should be granted for individuals with dependents. The proportion of previous earnings replaced would vary with the number of dependents, up to a maximum of 70 percent of wages, or $42, whichever is lower, for an individual with three or more dependents. * * *

Third, I recommend that adequate methods should be required to provide benefits for workers who move from one State to another. * * *

Fourth, I recommend that both Federal and State laws concerning fraud and disqualifications should be revised and improved.

President's Defense Production Act Message to the Congress, February 11, 1952

The potential pressures toward inflation are now greater than they were when the price upsurge took place a little more than a year ago. The reason that inflation was checked early in 1951, and why considerable price stability was maintained during most of the year, is not that the inflationary danger disappeared. It is rather that the inflationary danger was counteracted and contained by tax increases, by credit controls, by price and wage stabilization, by allocation measures, and by increasing the supplies of some vital lines of production. The inflationary upsurge was halted, not by inaction, but by action.

In particular, we need stronger controls over credit. Last year, the Congress seriously weakened the Government's powers to limit the availability of credit to finance purchases of consumer goods and real estate. In periods when supplies of goods are necessarily restricted, the dangers implicit in relaxed credit controls are great. We dare not take the risks involved in a loose policy on consumer and real-estate credit. The Congress should close this inflationary loophole by restoring full authority for flexible administration of credit controls—so that they can be expanded or contracted quickly to meet any eventuality.

The production features of the act appear to be generally adequate at the present time. A few amendments are needed, two of which I should like to call specifically to the attention of the Congress.

First, the law now permits the Government to make a variety of loans, guaranties, and purchase commitments where essential to help expand production of critical materials at home or abroad, or to develop high-cost sources of supply without forcing increases in general price ceilings. At present, the law sets a limit of $2.1 billion outstanding at any one time for these purposes. In all probability, this will not be adequate for programs which will be needed, and I recommend that it be raised to $3 billion.

Second, a legislative rider was included in the act last year which unnecessarily restricted imports of certain agricultural commodities. This rider, the so-called cheese amendment, needs to be repealed quickly. Otherwise, the friendly countries who are being hurt by this amendment may retaliate—as they have a right to do—against American exports of apples, tobacco, and other products.

So much for the production side of the present law. On the anti-inflation side, a great deal more needs to be done.

First of all, I renew my urgent recommendation that the Congress repeal last year's three principal weakening amendments to our price-control authority. These amendments are the Capehart amendment, the Herlong amendment, and the Butler-Hope amendment.

The Annual Review by the Council of Economic Advisers, January 1952

In the current situation, it is necessary to turn also to controls which will directly prevent the inflationary forces from producing their normal effect upon market prices. It is incorrect to say that these controls treat only the symptoms, and not the fundamental causes, of inflation. In practical effect, they restrain the growth of inflationary forces, besides helping to hold the price line against such forces. It is seriously misleading to think in terms of two distinct categories, one of policies which will restrain forces leading to price increases, and the other of policies which will hold down price increases despite the upward trend of the market.

Wage control is a good example of a policy which combines these objectives. Wage advances mean higher costs of production, and higher costs of production are a powerful force in raising prices. Wage increases also expand consumer buying power, which is equally potent in its effect upon market prices. But wage control, while directed to restraining these forces which directly influence prices, is also designed to break an inflationary spiral already under way, by holding the line on wages which would normally rise in response to conditions of a tight labor market and a rising cost of living.

Price control policy, although usually thought of as a measure to prevent price increases which would otherwise be caused by other forces, also has the purpose of restraining the inflationary spiral itself. The interaction of prices is obvious. A rise in one price affects many others, and the stabilization of any one price limits some of the force which is pressing upward the price of other goods. Price control also has the purpose of limiting the increase in incomes, which is the normal result of advancing price levels. (Pages 140–141.)

John D. Clark, Council of Economic Advisers, January 23, 1952

We expect that with the leveling off or the dropping off of the securities programs, the inflationary pressures will be reduced enough to make it possible to eliminate a good many controls.

We think that you could certainly have a free market in building materials which would enable more than a million and a quarter houses to be built without any Government orders needed to authorize it. We think the automobile production would be able to step up again.

The shortages in copper will be the more disturbing problem for that long a period. The steel situation ought to be remedied by the end of 1954 certainly and perhaps much earlier. The aluminum situation will be very much improved by 1954. Copper is the one that they worry most about.

Let me mention a couple of other needs which we will be wanting to fill as soon as the opportunity arises. These are on the Government side. Our highway system is deteriorating rapidly.

Equally important and praiseworthy would be our attention to public-school buildings. Hospitals are also going to present somewhat the same kind of problem. (Hearings, pp. 69–70.)

Roger L. Putnam, Administrator, Economic Stabilization Agency, January 25, 1952

I have not meant to emphasize decontrols as much as I seem to have done, because I do not think we should talk about decontrol for another year or year and a half. Right now we have got to think of how to hold this additional pressure we all know is coming.

It is not 5 or 6 billion, it is 20 billion more than last year. * * *

Certainly, the less that is spent the less the pressures are. There is no question about that, of course. But I would not like to make any categorical answer about how much quicker it would bring the question of decontrols. I think that would depend where the spending was cut out.

Some things would still be very scarce and would perhaps require to be controlled, both pricewise and wagewise. And if you control wages in any area it is pretty hard not to control wages in other areas.

Prices can be decontrolled more selectively and easier, I think, than wages can be decontrolled. (Hearings, p. 127.)

I would hope that within 2 years we could begin to decontrol some areas, but the control powers, many of them, would be definitely needed all during the 2 years, in my opinion. (Hearings, p. 132.)

It is very hard for me to see how the removal of a ceiling that happens to be well above the demand price would increase the demand. I have no feeling that ceilings should be pushed down to a depressed level. They should be at a fair and equitable level. But my reason is not compelled to follow the thought that removing the ceiling will help the industry, although I know many industry people often feel that, but I think that is often a desire to blame something somewhere that they cannot control at all. If they could feel that it is a ceiling that keeps their market low they would much rather talk about that, rather than about a lack of demand. (Hearings, p. 132.)

I feel first and foremost it [the Defense Production Act] should be extended, definitely, and for 2 years, because I think that is as quickly as we can—any of us—envision getting out of these woods.

I think it should be strengthened in about four places very definitely, too. First and foremost I think the credit control authority should be restored—the so-called regulations X and W—the authority to impose selective credit control should be restored. I think that is one of the most important possible amendments. That is one of these so-called indirect anti-inflation controls.

I also think that both the Capehart and the Herlong amendments should be nullified in some way or other if possible. Changing Herlong won't have tremendous effect, since the basic controls over wholesalers and retailers will be under regulations envisioned by the Herlong type of amendment anyway. But I hate putting into the law an absolute freeze and allowing no administrative leeway. I think there are cases where there should be administrative leeway. Then I think that in order to control meat prices and to protect the legitimate producers and packers, we should be restoring some form of slaughter-quota authority. With the demand for beef so high, there is a tremendous black-market tendency.

The quota controls were intended to make sure that the legitimate people got the beef, and it wasn't channeled off into the black market. (Hearings, p. 141.)

Charles E. Wilson, Director of Defense Mobilization, January 26, 1952

The crucial test of our determination to curb inflation and to carry out our program to the end is just ahead. It will be during the next year that supplies will be shortest. After that we may expect a period of increasing improvement as we get closer and closer to the accomplishment of the objectives of the mobilization program. But we must push forward vigorously with the mobilization program, in order to achieve this security and end the period of shortages. Delays in the program will both impair our security and prolong the period of shortages.

In order to continue the programs, we need continued statutory authority. Without the powers contained in the Defense Production Act achievement of our objectives will be impossible. (Hearings, p. 173.)

Price and Wage Control

President's State of the Union Message to the Congress, January 9, 1952

On the executive side of the Government, we intend to hold the line on prices just as tightly as the law allows. We will permit only those wage increases which are clearly justified under sound stabilization policies and we will see to it that industries absorb cost increases out of earnings wherever feasible, before they are authorized to raise prices. We will do that, at any rate, except where the recent amendments to the law specifically require us to give further price increases.

The Annual Economic Review by the Council of Economic Advisers, January 1952

Wage advances mean higher costs of production, and higher costs of production are a powerful force in raising prices. Wage increases also expand consumer buying power, which is equally potent in its effect upon market prices. But wage control, while directed to restraining these forces which directly influence prices, is also designed to break an inflationary spiral already under way, by holding the line on wages which would normally rise in response to conditions of a tight labor market and a rising cost of living.

Price-control policy, although usually thought of as a measure to prevent price ncreases which would otherwise be caused by other forces, also has the purpose of estraining the inflationary spiral itself. (Pages 140–141.)

A firm price policy does not mean that price control should continue indefinitely in every sector of the economy and for every item. If the international situation does not worsen, a rising production trend should make it feasible at a later date to reduce substantially and progressively the area of coverage of price control. The Council has never been impressed with the argument, which seems to prove too much, that no prices can be controlled unless all prices are controlled. After we get over the production hump, for the long period ahead we must be prepared and ready to use selective price controls geared to strategic areas. In that situation, we should rely for general stabilization upon other anti-inflation weapons. (Pages 146–147.)

The Battle for Production, Fourth Quarterly Report by the Director of Defense Mobilization, January 1, 1952

Price control will be made more difficult also by the amendments to the Defense Production Act—particularly the requirement that increases in all costs to July 26, 1951, shall be allowable in unit prices of manufactured and processed goods, the provision that distributors' percentage margins should be maintained, and the repeal of slaughter quotas. It is important that the price-control legislation be improved by the Congress.

At the same time, wage stabilization is entering a critical stage, as negotiations for large wage increases are under way or about to get under way in key industries. Effective price stabilization of course demands effective wage stabilization. (Page 35.)

The objective of price control is to achieve and maintain price stability at the lowest levels that are fair and that can be held firmly.

Price control by itself, however, cannot hold a firm line against inflation. If we should prove unable to hold down demand for goods—through curtailing investment, controlling credit, increasing taxes, and encouraging savings—then prices would be bound to rise regardless of the policies of price-control authorities. (Page 38.)

John D. Clark, Council of Economic Advisers, January 23, 1952

The anti-inflationary measures available in a democratic society are thoroughly standardized. We do not feel that there is any call upon us to be inventing new ones. The old ones are, in our opinion, well buttressed by experience, and we come forward with them once more.

This morning you discussed taxation as one of the principal elements in an anti-inflationary program. We have direct control of prices and wages. They are far more successful than is generally credited. (Hearings, p. 70.)

Michael V. DiSalle, Director, Office of Price Stabilization, January 28, 1952

We are not allowing an automatic pass-through. We are using the earning standards on those cost increases incurred after July 26, 1951. We are requiring that we measure those cost increases against the earning standard and requiring absorption where it is possible. The earning standard given to us by Mr. Johnston in April 1951, said that no price increase may be granted if the earnings were in excess of 85 percent of the best 3 years from 1946 to 1949. (Hearings, p. 195.)

Nathan P. Feinsinger, Chairman, Wage Stabilization Board, January 28, 1952

The immediate objective of wage stabilization is to help combat the threat of inflation in a defense economy. Increases in wage rates may add to inflationary pressures in two ways: By adding to purchasing power and by adding to business costs. I refer specifically to wage rates because our primary task is to stabilize rates rather than earnings. Today the Nation is interested in maximum production. This means increased earnings through increased employment, increased hours, increased output through incentive systems, and the like. The advantages derived through such increased earnings obviously outweigh any possible inflationary effects. (Hearings, p. 197.)

A flexible program must not be confused with a program of steady retreat under pressure. On the other hand, "a firm price policy and a firm wage policy," in the words of the President, does not mean a frozen price policy or a frozen wage policy or wage stabilization policy. (Hearings, pp. 197–198.)

Since our basic policy is to gear changes in wages to changes in the cost of living which have already occurred, obviously to a large extent the lifting of ceilings on prices results in automatic wage increases.

Now, I want to be fair to the price people in saying that unquestionably some of the wage increases, cost-of-living wage increases, although they followed previous price increases, to some extent contribute to the next price increase. We recognize that. (Hearings, p. 202.)

I think that for the foreseeable future the lifting of price controls, with a tightening market for labor and goods, would result in virtually automatic price increases, which in turn would result in automatic wage increases, and a demand on the part of workers for a new wage formula because this must be pointed out: the Board's cost-of-living policy does not guarantee the worker that he will maintain his standard of living. It merely maintains that he will preserve his real wage rate. His standard of living may be down in many ways even though his wage rate remains constant.

Payment of higher taxes and all of the other burdens of a defense economy must be met by the worker just like the rest of us. (Hearings, pp. 202–203.)

Without suggesting that that be the limit of adjustments, because there are all sorts of special inequities, as a basic factor in any wage policy maintained by the Government, I would recommend very strongly the use of the so-called escalator clause because it is simple, it is understandable, it is uniform, and everybody knows in advance just what is going to happen. I want to emphasize I am not suggesting that as of the sole or exclusive measure, but certainly a measure of determining general wage movements. The employees understand it, Government understands it, it is easily administered. (Hearings, p. 209.)

APPENDIX C[1]

COMMITTEE STUDIES AND PUBLICATIONS

COMMITTEE STUDIES UNDERWAY

Pension Study

A study of the effects of public and private pension programs on the national economy, which was recommended by the Subcommittee on Low-Income Families, has been completed to the writing stage. Preliminary drafts of the materials for the final report are now being reviewed by the National Planning Association, which organization is undertaking the study on invitation of the Joint Committee on the Economic Report. The study will attempt: (1) to find out what is known at the present time about private and public pensions and their effects; (2) to report on the kind of research being undertaken which can help guide future policy, and who is conducting it; and (3) to point up the problems and explore informed views in order to discover broad areas of agreement, if any, on what should be done.

Regional Studies

In response to the request of the committee, the National Planning Association has organized and is sponsoring a Committee of New England which has as one of its early objectives the preparation of an analysis of the impact of Federal policies on the economy of that region. The Committee of New England has 91 members and is composed of leading representatives of New England business, finance, labor, agriculture, and the professions. Its chairman is Dr. Leonard Carmichael, president of Tufts College.

The Committee of New England is organizing its study under seven working panels which will cover the problems of management and research, capital and credit, human resources, natural resources, tax and fiscal policies, transportation and communication, and information and education. Several panels have completed preliminary drafts of their sections of the report and all have developed extensive working outlines. The Committee of New England has available for guidance and assistance in the preparation of its reports a 32-member research advisory committee composed of leading New England social scientists.

The Effect of Temporarily Suspending Restrictions on Imports Into the United States

This study, which will involve a commodity by commodity analysis, is designed to suggest the effect on the flow of goods into this country and the relationship of this flow to domestic production if restrictions on imports were suspended, either on individual commodities or for all imports on which there are now restrictions. The report will cover the effect of removing such barriers on achieving maximum production and on fighting inflation here and abroad.

[1] Complete to March 10, 1952.

General Credit Control and Debt Management

This study is being undertaken by a subcommittee composed of Representative Wright Patman, chairman; Senators Paul H. Douglas and Ralph E. Flanders, and Representatives Richard Bolling and Jesse P. Wolcott. The inquiry is focusing on the current problems and relationships of the Government agencies responsible for general credit control and debt management—the Federal Reserve System and the Treasury Department.

The subcommittee, which has published *Monetary Policy and the Management of the Public Debt*, began a series of public hearings March 10, 1952. It will report to the full committee before the Congress recesses.

Index of Joint Economic Committee Publications

As the number of publications of the Joint Economic Committee grows it becomes increasingly difficult to turn quickly to committee statements and materials on a given subject, or to be sure that any list of citations to committee studies and hearings is complete. A consolidated index is under preparation which will make it possible for committee members and staff, and researchers generally to overcome these difficulties. The initial index, which will be supplemented periodically as necessary, is expected to be completed by December 1952.

Long-Term Economic Adjustments

This study will attempt to provide materials on the needs and opportunities to which the Nation can devote itself once the defense build-up is completed. The analysis will center upon the role to be played by business, consumers and Government in the period of readjustment. Private investment in plant facilities is always a substantial item on the Nation's economic budget and will be particularly important in the readjustment period. Courses of action open to Government include the lowering of taxes, the financing and encouragement necessary of public works, housing, roads, etc. The study will undertake to answer such questions as:

What will private investment requirements be after the period of major defense expenditures?

How is such private investment stimulated?

What will the demand for housing be?

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

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

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 nature and size of accumulated public needs?

Materials assembled for use in the study of the flexibility of tax and expenditures programs which were described in the committee's 1951 report will be incorporated in this broader study.

Economic and Statistical Tools for Policy Guidance

The staff of the Joint Committee on the Economic Report has from time to time attempted to present the economic implications of alternative economic policies of the Federal Government. The current study proposes to review the statistics and techniques used in these analyses with a view to determining their appropriateness for policy guidance, and means of improving both the techniques and the statistics.

The Taxation of Surplus Corporate Accumulations

In response to a recommendation made by the Subcommittee on Investment in 1950, arrangements were made for an intensive study of the application and effect of section 102 of the Internal Revenue Code dealing with accumulations of corporate undivided earnings. Questionnaires were submitted to a number of businesses and much original information obtained from the Bureau of Internal Revenue. The study has been completed and will be issued soon as a committee print.

Effect of Military and Nonmilitary Government Expenditures on the Economy

In response to a proposal that the committee should undertake a thorough study of the effect on the economy here and abroad of military and nonmilitary expenditures, a subcommittee consisting of Representative Richard Bolling and Senator Ralph E. Flanders was appointed to prepare a statement outlining the general scope and nature of such a study.

The plan is to have a staff review of the broad effects of military and nonmilitary expenditures for consideration in connection with steps that should be taken to mobilize the moral as well as the military forces of the United States and the world to win the peace. This will include, of course, expenditures here and abroad for mutual security.

COMMITTEE STUDIES COMPLETED SINCE APRIL 1951

The Joint Committee on the Economic Report, in addition to its report on the January 1951 Economic Report of the President (S. Rept. No. 210, 82d Cong., 1st sess.) issued six committee prints and one committee report from March 1951 through February 1952.

The first of these studies was a committee print of materials prepared by the staff on *The Need for Industrial Dispersal* which was issued June 13, 1951. This study reviewed the effect of current Government programs on industrial location and suggested certain standards for use in determining the location of future industrial expansion, from the point of view of security in the event of war emergency and of making the maximum use of our human and natural resources.

The second study issued by the committee was *Making Ends Meet on Less than $2,000 a Year.* This was a collection of materials received by the Joint Economic Committee from the conference group of nine national voluntary organizations convened by the National Social Welfare Assembly. The materials submitted, which were issued in the form of a joint committee print, present 100 case studies of individual families receiving less than $2,000 in annual income. These case studies were prepared in response to a request for illustrative material to supplement studies conducted during 1949 and 1950 by the Subcommittee on Low Income Families. No attempt was made to provide a statistical sample; the objective of the study being rather to go behind the abstract problem to the human realities, showing the kind of essentially human adjustments which families have to make in order to live within such incomes.

On July 23, the Joint Committee on the Economic Report and the Select Committee on Small Business, United States Senate, issued a committee print, *Prevalence of Price Cutting of Merchandise Marketed Under Price-Maintenance Agreements.* The study summarizes the results of a survey made by Dun & Bradstreet on the extent to which price cutting, which began in New York City following the Supreme Court decision in *Schwegemann Bros.* v. *Calvert Corporation*, was being followed throughout the country. The survey also attempted to determine the areas in which price cutting of items covered by the Miller-Tydings Act was taking place, the number of stores in each community involved, and the lines of merchandise in which reductions were being made.

The Joint Committee on August 15, 1951, submitted to the Congress a unanimous report, *Inflation Still a Danger* (S. Rept. No. 644, 82d Cong., 1st sess.), in which the committee indicated its concern lest the combined effect of a cease-fire in Korea, a budgetary surplus for the fiscal year just ended, and a temporary easing of inflationary tension would lull the country and the Congress into complacency regarding the threat of further inflation. The report also includes materials prepared by the committee staff suggesting quantitatively the inflationary pressures likely to be generated by excess money demand and excess business spending—and the potential effectiveness of various proposed stabilization measures to remove or neutralize such inflationary pressures.

As a convenience to committee members, the press, and other interested persons the Joint Economic Committee issued as a committee print, *Questions on General Credit Control and Debt Management*, which the Subcommittee on General Credit Control and Debt Management directed to various Government agencies, economists, bankers, and others.

Replies to these questions were released February 29, 1952, under the title *Monetary Policy and the Management of the Public Debt.* These materials reproduce in full the replies of key Government agencies and present a summary and abstract of the answers received from individuals and organizations outside the Government.

The Joint Economic Committee staff, in cooperation with the staff of the Select Committee on Small Business of the House of Representatives, has prepared a review of the proposal to put a 25-percent limit on Federal income, estate, and gift tax rates by constitutional amendment. This was published February 22, 1952, under the title *Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates.*

COMMITTEE HEARINGS HELD FROM MARCH 1951 THROUGH FEBRUARY 1952

Hearings were held January 23, 24, 25, 26, 28, 30, 31, and February 1, 1952, in connection with the committee's review of the 1952 Economic Report of the President. Members of the President's Council of Economic Advisers and the Director of the Bureau of the Budget appeared before the committee in executive session on the first 2 days of the hearings; these meetings were followed by a series of public hearings and three panel discussions. Representatives of the agencies directly concerned with administering the Government's economic stabilization program made individual presentations before the committee and were followed by panel discussions with outstanding technicians on the nature and magnitude of the problem of mobilization and economic stabilization, Federal fiscal policy, and Federal direct controls. At the invitation of the Armed Services Subcommittee of the Senate Committee on Appropriations, the Joint Committee joined in a hearing on the military budget, February 4 and 5, 1952.

COMMITTEE STAFF

Public Law 330, Eighty-first Congress amended the Employment Act of 1946 by increasing the appropriation authorization for the joint committee from $50,000 to $125,000. This increased authorization, which does not represent actual expenditures but only the amount of appropriation allowable upon adequate justification of programs made annually to the Congress, was provided in order that the committee might have a sufficient staff to enable it to carry out the functions set forth in the Employment Act of 1946. It was pointed out in the report of the Senate Banking and Currency Committee, which accompanied the amending bill (S. 2085) that—

> The joint committee should be staffed with a number of top economists capable of analyzing and relating fiscal, monetary, and regulatory policy. It should be equipped to appraise and relate international and foreign-trade policies to our domestic economy and continually study national product, and national income including resources, plant capacity, and price, wage, and profit relationships, and the like. It would be contemplated that this enlarged staff, functionally organized, would not engage in duplicating research, but rather devote its attention to bringing to the committee information and independent objective advice on these related economic problems. * * *

Several of these fields of specialization were covered by members already on the staff when the legislation was passed. A recruiting program has added to the original group of technicians and provided generally for the fields which were not covered. The committee staff now includes an economist specializing in studies of employment, production, and purchasing power; an associate economist who is trained in agricultural economics and also assists in general economic analyses; an economist on monetary, credit, and fiscal policies; and a research assistant concentrating on studies of low-income families and welfare programs. In addition to the full-time professional staff consisting of these technicians, the clerk of the committee, who also serves as economist on regional development studies, and the staff director, the committee has a small, statistical and secretarial staff of seven trained persons. An additional economist has been designated as the minority representative and, as such, reports to the ranking minority member. All other members of the staff are under the immediate supervision of the staff director and are available at all times to assist any member of the committee.

In order to limit the size of its full-time professional staff to the essential minimum, the committee has made a practice of borrowing personnel from other Government agencies on a reimbursable basis whenever its special studies are of a magnitude sufficient to require such action. The economist currently working with the Subcommittee on General Credit Control and Debt Management has been borrowed from the International Monetary Fund. Additional specialists have been borrowed from time to time from the Legislative Reference Service of the Library of Congress.

In addition to authorizing the appointment of its own staff, the Employment Act of 1946 authorizes the Joint Committee on the Economic Report to—

> * * * utilize the services, information, and facilities of the departments and establishments of the Government * * *.

In keeping with this provision and the general attitude of the Congress as expressed in the Senate Banking and Currency Committee report, the staff has carefully avoided engaging in duplicating research but has devoted its attention to providing the committee with information and objective analyses on a wide range of economic problems. Frequently this has involved organizing information already existing in the executive agencies in a way to make it of maximum use to the committee. Conferences are held with informed Government technicians in the field and the experience of the various agencies brought to bear through cooperative research projects stimulated and sometimes organized by the Joint Economic Committee staff. This has involved working not only with the staff and members of the Council of Economic Advisers, the committee's executive branch counterpart, but with all agencies which have some contribution to make to the problem at hand. This approach has served to minimize the duplication of work but has in no way affected the independence of operation and thinking of the Joint Economic Committee staff.

DISTRIBUTION OF COMMITTEE MATERIALS

The last report on the distribution of the Joint Economic Committee materials covered the period between April 1950 and March 1951. Since March 1951 and through February 1952, the Joint Committee on the Economic Report has released or re-issued a total of nine studies in the form of committee prints, reports, or documents, and one hearing. At the same time the committee still had available a small stock of its earlier studies. Total distribution of the e new and prior publications totaled 48,000 copies for the period all of which were distributed only on request. The committee also issued during the year, the monthly statistical publication, Economic Indicators. Over 1,000 copies a month of Economic Indicators were distributed to Members of Congress, congressional committees, the press, depository libraries, and the Council of Economic Advisers.

Nineteen of the joint committee's reports were on sale by the Superintendent of Documents for varying lengths of time during the period March 1951 through February 1952, with total sales amounting to approximately 7,000 copies. Both the subscription sales and individual sales of Economic Indicators made a steady increase from 2,500 a month at the beginning of the period to over 3,000 in February 1952.

PUBLICATIONS OF THE JOINT COMMITTEE ON THE ECONOMIC REPORT [1]

JANUARY 1949–FEBRUARY 1952

Joint Economic Report (Report of the Joint Committee on the Ecconomic Report on the January 1949 Economic Report of the President), Senate Report 88: March 1949.

Joint Economic Report (minority views of the Joint Committee on the Eeconomic Report on the January 1949 Economic Report of the President), part II of Report 88: April 1949.

Employment and Unemployment (initial report of the Subcommittee on Unemployment), committee print: July 1949.

Economy of the South (the impact of Federal policies on the economy of the South), committee print: July 1949

**Factors Affecting the Volume and Stability of Private Investment* (materials on the investment problem assembled by the staff of the Subcommittee on Investment) Senate Document 232. (Sale price, 60 cents): September 1950; reprinted from committee print of October 1949.

Hearings on Federal Expenditure and Revenue Policies, September 23, 1949, containing National Planning Association reports prepared by Conference of University Economists: October 1949.

Selected Government Programs Which Aid the Unemployed and Low-Income Families (materials assembled by the staffs of the Subcommittee on Unemployment and the Subcommittee on Low-Income Families) committee print: November 1949.

**Low-Income Families and Economic Stability* (materials on the problem of low-income families assembled by the staff of the Subcommittee on Low-Income Families) Senate Document 231. (Sale price, 35 cents): September 1950; reprinted from committee print of November 1949.

**Compendium of Materials on Monetary, Credit, and Fiscal Policies* (a collection of statements submitted to the Subcommittee on Monetary, Credit, and Fiscal Policies by Government officials, bankers, economists, and others) Senate Document 132. (Sale price, $1): January 1950; reprinted from committee print of November 1949.

Hearings, Subcommittee on Investment (September 27, 28, 29, 1949): November 1949.

Basic Data Relating to Steel Prices (materials assembled by the staff of the Joint Committee on the Economic Report for use in steel hearings) committee print: January 1950.

**Highways and the Nation's Economy* (materials assembled by the staff of the Joint Committee on the Economic Report), Senate Document 145. (Sale price 20 cents): January 1950.

Hearings on Monetary, Credit, and Fiscal Policies (September 23, November 16, 17, 18, 22, 23, and December 1, 2, 3, 5, 7, 1949): January 1950.

**Monetary, Credit, and Fiscal Policies* (Report of the Subcommittee on Monetary Credit, and Fiscal Policies), Senate Document 129. (Sale price 15 cents): January 1950.

**Employment and Unemployment* (Report of the Subcommittee on Unemployment), Senate Document 140. (Sale price 30 cents): February 1950.

Hearings, Subcommittee on Investment (December 6, 7, 8, 9, 12, 13, 14, 15, 17, 1949): February 1950.

Hearings, Subcommittee on Low Income (December 12, 13, 14, 15, 16, 17, 19, 20, 21, 22): March 1950.

Hearings, January 1950 Economic Report of the President (January 17, 18, 19, 20): February 1950.

[1] Publications marked with an asterisk (*) are on sale at the Superintendent of Documents, Government Printing Office, Washington 25, D. C. It is the general practice of the Joint Economic Committee to make available a limited supply of single copies of its publications for free distribution and to arrange for the sale of its studies through the Superintendent of Documents to take care of quantity orders.

Printed reports of hearings are available only on special request for each hearing, and are distributed to depository libraries throughout the country.

Hearings, December 1949 Steel Price Increases (January 24, 25, 26, 27): March 1950.

**Low-Income Families and Economic Stability* (final report of the Subcommittee on Low-Income Families), Senate Document 146. (Sale price 15 cents): March 1950.

**Volume and Stability of Private Investment* (final report of the Subcommittee on Investment), Senate Document 149. (Sale price 15 cents): March 1950.

**December 1949 Steel Price Increases* (Report of the Joint Committee on the Economic Report), Senate Report 1373. (Sale price 20 cents): March 1950.

**Handbook of Regional Statistics* (material assembled by the staff of the Joint Committee on the Economic Report), committee print. (Sale price $1): April 1950.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1950 Economic Report of the President), Senate Report 1843. (Sale price 35 cents): June 1950.

**General Credit Control, Debt Management, and Economic Mobilization* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 25 cents): January 1951.

**Underemployment of Rural Families* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 20 cents): February 1951.

**The Economic and Political Hazards of an Inflationary Defense Economy* (materials prepared by the staff of the Joint Committee on the Economic Report), committee print. (Sale price 30 cents): February 1951.

Hearings, January 1951 Economic Report of the President (January 22, 24, 25, 26, 29, 31, February 2): March 1951.

**Joint Economic Report* (Report of the Joint Committee on the Economic Report on the January 1951 Report of the President), Senate Report 210. (Sale price 30 cents): April 2, 1951.

**Making Ends Meet on Less Than $2,000 a Year*, Case Studies of 100 Low-income Families (communication to the Joint Committee on the Economic Report from the Conference Group of Nine National Voluntary Organizations Convened by the National Social Welfare Assembly), committee print. (Sale price 35 cents): July 1951.

Prevalence of Price Cutting of Merchandise Marketed Under Price-Maintenance Agreements, May 28 through June 25, 1951 (study prepared for the Joint Committee on the Economic Report and Select Committee on Small Business), committee print.

**The Need for Industrial Dispersal* (materials prepared for the Joint Committee on the Economic Report by the committee staff), Senate Document 55. (Sale price 30 cents): August 1951.

National Defense and the Economic Outlook (materials prepared for the Joint Committee on the Economic Report by the committee staff), committee print: August 1951.

**Inflation Still a Danger* (report of the Joint Committee on the Economic Report together with materials on national defense and the economic outlook included in committee print mentioned above), Senate Report 644. (Sale price 15 cents): August 1951.

**Questions on General Credit Control and Debt Management* (prepared by staff of the Subcommittee on General Credit Control and Debt Management of the Joint Committee on the Economic Report), committee print. (Sale price 15 cents): October 1951.

**Monetary Policy and the Management of the Public Debt.* Their Role in Achieving Price Stability and High-Level Employment (replies to questions and other material for the use of the Subcommittee on General Credit Control and Debt Management). (Sale price: Part I, $1.75; Part II, $2.50): February 1952.

*Hearings, January 1952 Economic Report of the President (January 23, 24, 25, 26, 28, 30, 31, February 1). (Sale price $1.25): February 1952.

**Constitutional Limitation on Federal Income, Estate, and Gift Tax Rates* (materials assembled for the Joint Committee on the Economic Report and the Select Committee on Small Business of the House of Representatives), committee print. (Sale price 15 cents): February 1952.

**Joint Economic Report* (Report of the Joint Committee on the January 1952 Report of the President together with National Defense and the Economic Outlook for the Fiscal Year 1953, materials prepared for the Joint Committee on the Economic Report by the Committee staff): March 1952.

**Economic Indicators* (a monthly publication of the Congress under Public Law 120, 81st Cong., 1st sess.) (Sale price 20 cents a copy, $2.00 a year): monthly.

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