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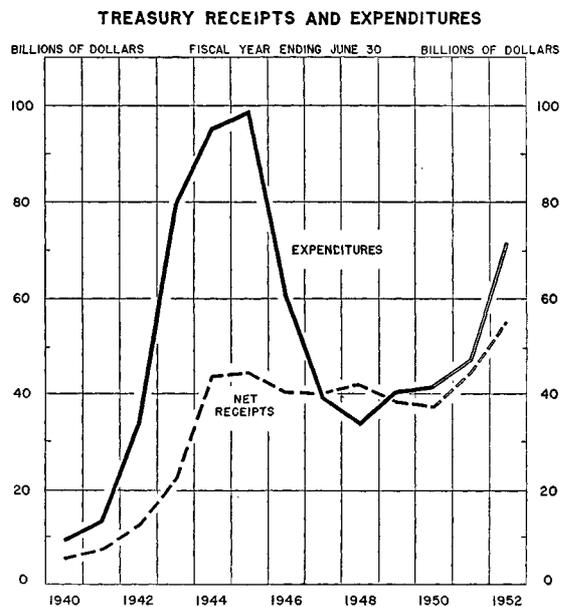
NUMBER 2

THE FEDERAL BUDGET FOR REARMAMENT

The Federal Budget for the fiscal year ending June 30, 1952, presented to Congress in January, provides the first over-all estimate of the fiscal program that the nation's planned rearmament will require. Total expenditures in fiscal year 1952 are estimated at 71.6 billion dollars. An increase of 7 billion in the current fiscal year will be followed by a further rise of 24.4 billion in the coming fiscal year which begins on July 1, 1951. Nearly three-fourths of the expenditures in 1952 will be directly related to national security. It is also evident that expenditures for this purpose are expected to continue at a high level in the fiscal year 1953, since unexpended authorizations of about 75 billion dollars are expected to be outstanding on June 30, 1952. The level of Federal expenditures under the current rearmament program, however, will be considerably below that reached during World War II, as is shown in the chart, although the price level is much higher than in the earlier period.

Government revenues will expand substantially as a result of higher incomes and the legislation since August 1950 raising individual and corporation income taxes. Without further considerable tax increases, however, the rise in revenues will not keep up with mounting expenditures. For the fiscal year ending June 30, 1951, a Budget deficit of 2.7 billion dollars is anticipated. Under the existing taxes the budgetary deficit

for the fiscal year ending June 30, 1952, is expected to rise to 16.5 billion. This is the amount that must be raised by additional taxes in order to keep the defense program on a pay-as-you-go basis, in accordance with the President's objectives.



NOTE.—Budget receipts and expenditures from Budget for 1952 and earlier years. Expenditures for 1948 exclude 3 billion dollar transfer to Foreign Economic Cooperation Trust Fund and expenditures for 1949 and later years include expenditures from this fund.

Uncertainty with respect to military and diplomatic developments, the pace at which production will be geared to meet rearmament requirements, and the course of prices raises the possibility of substantial changes in Government plans for both expenditures and financing. The Budget, therefore, must

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be regarded as an unusually tentative estimate of Government expenditures and of the needs for additional tax revenues or borrowing during the next fiscal year.

The economic impact of Government fiscal actions is only partly determined by the direct effect of the expenditures, taxation, and financing program. An additional part of the economic impact is the way the fiscal program affects the decisions of business management, labor, farmers, and consumers, as well as Government leaders. In fiscal year 1951 both public and Congressional reaction was considerably earlier and greater than would be expected on the basis of the actual fiscal activity of the Government.

Public anticipation of the economic effects of the enlarged military expenditures arising from the United Nations' action in Korea resulted in increases in consumer expenditures, private investment, production activity, and prices which were relatively greater than the expansion in Government expenditures or the deficit financing. This reflects in part the recentness of the World War II experience with shortages of civilian goods, and in part high personal incomes, abundant holdings of liquid assets, and availability of credit. It also results from confidence in continuing high-level employment which has been generally engendered by the expanding backlog of unused Government expenditure authorizations.

PATTERN OF EXPENDITURES IN 1952

Federal Budget expenditures will expand rapidly during the fiscal year 1952. The estimated total of 71.6 billion dollars for the year will be 31.4 billion above that of the 12-month period preceding the outbreak of hostilities in Korea. Indications are that the attainment of an adequate position of defense

preparedness will require an extension of the budget in Federal outlays beyond 1952.

The growth in Budget expenditures reflects the increased outlays for national security. The total cost of supporting the armed services, of extending military and economic aid to the free nations, and of other security programs is estimated to rise to 52.3 billion dollars in the fiscal year 1952, as is shown in the table. This compares with expenditures of 17.6 billion for these activities in the fiscal year 1950 and 26.8 billion in the current fiscal year. Expenditures for veterans' services and benefits and for interest on the debt, which together represent primarily the continuing cost of past wars, will total 10.8 billion dol-

FEDERAL BUDGET EXPENDITURES
[In billions of dollars]

Function	Fiscal year ending June 30—			Increase (+) or decrease (-), 1950 to 1952
	1952 ¹	1951 ¹	1950	
Total	71.6	47.2	40.2	+31.4
National security, total	52.3	26.8	17.6	+34.7
Military services ²	40.1	20.1	11.9	+28.2
International military and economic assistance.....	7.1	4.5	4.6	+2.5
Atomic energy.....	1.3	.8	.6	+.7
Stockpiling of strategic and critical materials.....	1.3	.9	.4	+.9
Defense production and eco- nomic stabilization.....	1.4	.3	(³)	+1.4
Defense housing, civil defense, and related activities ⁴7	.1	+.7
Promotion of merchant marine.....	.4	.2	.1	+.3
Past wars, total	10.8	11.5	12.4	-1.6
Veterans' services and benefits.....	4.9	5.7	6.6	-1.7
Interest on debt.....	5.9	5.7	5.8	+.1
Other (chiefly civilian func- tions), total ⁵	8.5	8.9	10.2	-1.7
Transportation and communi- cation.....	1.3	1.8	1.7	-.4
Agriculture and agricultural resources.....	1.4	1.0	2.8	-1.4
Housing and community de- velopment.....	⁶ .5	.4	.3	-.8
Natural resources.....	1.2	1.3	1.0	+.2
Social security, welfare, and health.....	2.6	2.5	2.2	+.4
General government.....	1.2	1.2	1.1	+.1
All other ⁷	1.2	.7	1.1	+.1

¹ Estimated.

² Excludes outlays for stockpiling shown below.

³ Less than 50 million dollars.

⁴ Includes dispersal of Government facilities and education of children on Federal property and in emergency areas.

⁵ Amounts for these classifications, as shown in Budget Message, less amounts classified as national security.

⁶ Excess of receipts.

⁷ Includes conduct of foreign affairs; finance, commerce and industry; labor; education and general research; and other.

NOTE.—Figures from Budget for 1952. Details may not add to totals because of rounding.

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lars in the fiscal year 1952. These expenditures are expected to decline in both the fiscal year 1951 and 1952. All other expenditures, which reflect principally the wide variety of Government functions for civilians, are expected also to decline in both years and to total 8.5 billion in the fiscal year 1952.

NATIONAL SECURITY

Military expenditures in the remainder of the current fiscal year and in fiscal year 1952 are estimated on a basis to provide for a continuing armed conflict not much greater in scope than that in Korea, together with more adequate general preparedness. This will involve an expansion of the armed forces by about 1 million before July 1951, maintenance of the 3½ million level attained, expansion of military bases, and provision of a substantial reserve of modern military equipment as well as the expanded plant capacity for military production.

Military services expenditures for fiscal year 1952 are estimated at 40 billion dollars. This amount is double the 1951 total and nearly four times that of 1950. At this time details of the military budget are not available. Moreover, legislation proposed after the presentation of the Budget indicates additional expenditures. It is reported, for example, that an additional 2 billion dollar Navy supplement, largely for the construction of submarine and mine sweepers, is almost a certainty, and that the adoption of Universal Military Training would require additional expenditures.

In addition to expanded outlays for military services, aid to the free world in 1951 and 1952 will shift from general economic assistance to a rapid build-up of mutual defense forces. To reach the goal of arming members of the Atlantic Pact and other cooperating nations, expenditures for foreign

economic and military aid are estimated to increase to 7.1 billion dollars in 1952 from a 1951 total of 4.5 billion. More than half of the 1952 total will be for military equipment to be shipped from the United States. Some provision is also made for economic assistance to non-European areas, to build security through improvements in productivity.

A substantial increase in expenditures for atomic energy in the fiscal year 1951 will go largely to expand capacity to produce atomic weapons and materials. According to the Budget Message, this program will continue into 1952, and in addition all portions of the atomic program will expand, including stockpiling of raw materials and developing new designs of nuclear reactors.

Stockpiling of other strategic and critical materials is expected to continue into the fiscal year 1952 at an even more rapid rate than is estimated for 1951. Expenditures for the three-year period shown in the table total 2.6 billion dollars, which is about 2 billion less than the amount authorized for this purpose. This extensive stockpiling has been an important factor underlying the rise in world prices for certain raw materials.

Expenditures for defense production and economic stabilization are expected to increase from 312 million dollars in the fiscal year 1951 to 1.4 billion dollars in 1952. Most of the expenditures in 1951 are for expansion of production. The enlarged 1952 program includes 1,100 million dollars for expansion of production and 304 million for price, wage, rent, and export controls. Expenditures in fiscal year 1951 include loans to encourage private production of scarce materials and outlays to purchase and install Government-owned equipment in existing defense plants. The additional 1.1 billion dollar 1952 program is scheduled to be spent for the same purposes as well as for the construction of

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Government-owned plants. The contemplated economic stabilization expenditures are to employ specialists and to open offices in strategic cities in order to administer price and wage controls.

Estimates include 100 million dollars for defense housing expenditures in fiscal 1952. This sum, however, does not represent all Government activity in this area. Recommended Government insurance of private loans for defense housing is relied on to provide nearly all of the needed stimulus. Civil defense expenditures in fiscal year 1952 are expected to total 330 million dollars as compared with 15 million in the current fiscal year. The realized level of expenditures, however, will be determined largely by the provision of matching grants by individual States. Closely associated with defense housing and civil defense is the request of the President for 6 million dollars in fiscal year 1951 and 164 million in fiscal year 1952 for the dispersal of Government agencies from the District of Columbia. Also in this category are the additional amounts recommended for expenditure by the Federal Security Agency to educate children on Federal property or in areas especially affected by Federal activities. Increased expenditures of 67 million dollars for this purpose in the fiscal year 1952 arise from needs created by expanded military installations and security production.

The 1952 Budget includes provision for the construction of speedier cargo ships that will be better able to avoid attack by modern submarines. For additional assurance of an adequate merchant marine, provision is continued for construction and operating subsidies to offset lower foreign costs.

OUTLAYS FOR PAST WARS

Expenditures for services and benefits to

veterans of wars and for interest on the debt are placed at 10.8 billion dollars in fiscal year 1952. This amount is 1.6 billion or about 13 per cent less than in 1950. The reduction arises from decreasing expenditures for readjustment benefits to veterans of World War II as the number of veterans enrolled for education and training declines. The education and training program is drawing to a close and the numbers enrolled will drop to a million in the fiscal year 1952 from the 1950 total of two million. By the end of 1952 an estimated 7.5 million veterans will have come under the program at a cost of 13.9 billion dollars. The 1952 budgetary savings in veterans' programs will be partially offset by higher dividend payments from the National Service Life Insurance trust fund. These payments are expected to begin in April 1951.

Interest costs on the public debt in the fiscal year 1952 will continue a slight upward trend. Growth in the outstanding amount of higher yielding special issues to Government agencies and trust funds and the accrual of interest on savings bonds at higher rates as maturity approaches account for most of the expected increase.

NONDEFENSE FUNCTIONS

The Budget expenditures which are not closely related to past, present, or future military activity are expected to total 8.5 billion dollars in the fiscal year 1952. This is 1.7 billion, or 17 per cent, less than the total spent for such activities in the fiscal year 1950. It should be noted that in this classification only the principal security-related outlays have been separated from expenditures for major functions as shown in the Budget Message.

The decline from 1950 to 1952 reflects smaller net outlays anticipated for the sup-

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port of farm prices, for maintaining a secondary market for home mortgages, and for the postal deficit. Expenditures for some civilian programs in fiscal year 1952 are expected to be larger than those in 1950. The more important are social welfare and, proposed legislation for assistance to States in providing elementary and secondary school education, additional facilities for the Tennessee Valley Authority, and other projects related to use of water resources including the St. Lawrence seaway and power project. Despite higher prices, expenditures in 1952 for numerous categories of activities are expected to be about the same as in 1950. To accomplish this has required abandonment of some programs recommended a year ago in the Budget for 1951.

Prices of most farm products subject to Federal support programs are now close to or above support levels, and net expenditures of the Commodity Credit Corporation in 1952 are estimated at 253 million dollars, compared with 1.7 billion dollars in 1950. Changes in law and administrative policy together with curtailed mortgage lending have modified the program of the Federal National Mortgage Association, which purchases and sells Federally guaranteed and insured mortgages in order to provide a secondary market for such mortgages. During the current fiscal year the Association has been curtailing its purchases and increasing its sales of mortgages previously purchased. Net income of 530 million dollars is expected from this program in 1952 in contrast to net expenditures of 580 million in 1950. A recommended increase in postal rates, together with economies realized through curtailing postal services, is expected to result in a postal deficit of 160 million dollars in 1952 compared with a deficit of 593 million in 1950.

Social security, welfare, and health. The provision for social security, welfare, and health in the Budget accounts consists principally of the amounts spent for public assistance to the aged, to disabled persons, and to dependent children, for public health and other assistance activities, and for crime control and correction. Such expenditures, less the railroad retirement bookkeeping transfer, will total 2.0 billion dollars for fiscal year 1952 compared with 1.6 billion for fiscal year 1950. An increase occurred in 1951 when grants to the States for old age assistance payments were expanded. These payments are expected to decline in 1952 because of enlarged old age and survivors insurance payments, but the 1951 total will be maintained through increased payments for aid to medical education and for the totally and permanently disabled.

The greater part of Federal expenditures under programs for social security, welfare, and health are made from trust funds. Most of these expenditures are excluded from Budget accounts because they are financed from special taxes and other payments into trust accounts rather than from the general revenue. Trust fund expenditures for these programs totaled 3.4 billion dollars in the fiscal year 1950, will decline to 3.2 billion in 1951, and are expected to increase to 3.6 billion in 1952. The two principal expenditures are for old age and survivors insurance and unemployment insurance. Old age and survivors insurance payments, including administration costs, will increase from 769 million dollars in fiscal year 1950 to 2,161 million in 1952, largely as a result of the higher benefits and extended coverage provided in the 1950 amendments to the Social Security Act. Unemployment insurance benefit payments, however, are expected to decline from 2,010 million in fiscal year 1950 to 715 million in

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1952, reflecting the low level of unemployment anticipated during a year of expanding production for rearmament purposes.

PRESENT REVENUE SOURCES INADEQUATE

Budget receipts under existing tax laws are estimated to total 55.1 billion dollars in the fiscal year ending June 30, 1952, compared with 37.0 billion in 1950 and 44.5 billion in 1951. The higher tax receipts in the fiscal year 1952 result largely from the application of the recent increases in taxes to the tax base during all of 1952, and from continued expansion of incomes and profits.

Receipts from direct taxes on corporations will be 9.1 billion dollars larger in the fiscal year 1952 than in 1950, as shown in the table. The base for corporation income tax payments in fiscal year 1952 will be the high profits of 1950 and 1951. Taxes will also reflect an increase in the income tax rate, accelerated payments of income tax, and the excess profits tax recently enacted. Individual income tax receipts in the fiscal year 1952 will be 8.6 billion dollars above those in 1950, reflecting the higher taxes provided in the Revenue Act of 1950 and withholdings and payments of taxes on increasing personal incomes during the year.

The expansion of tax revenues, although substantial, is expected to be 16.5 billion dollars less than the amount needed to balance the Budget receipts and expenditures. About 3.6 billion will be available from Government agencies and trust fund accounts for financing Budget expenditures. This would leave 12.9 billion dollars to be raised by borrowing from the public.

TAX RECOMMENDATIONS

In the Budget Message the President stated that under existing conditions sound public finance and fiscal policy require a balanced

FEDERAL BUDGET RECEIPTS
[In billions of dollars]

Source	Fiscal year ending June 30—			Increase (+) or decrease (-), 1950 to 1952
	1952 ¹	1951 ¹	1950	
Net receipts, total.....	55.1	44.5	37.0	+18.1
Direct taxes on individuals:				
Income taxes.....	26.0	21.6	17.4	+ 8.6
Estate and gift taxes.....	.8	.7	.7	+ .1
Direct taxes on corporations.....	20.0	13.6	10.9	+ 9.1
Excise taxes and customs.....	8.8	8.8	8.0	+ .8
Employment taxes ²	4.7	3.8	2.9	+ 1.8
Other budget receipts.....	1.3	1.3	1.4	- .1
Deduct:				
Refunds of taxes.....	2.7	2.3	2.2	+ .5
Appropriations to Federal old age and survivors in- surance trust fund.....	3.8	3.0	2.1	+ 1.7

¹ Estimates based on legislation enacted before mid-January 1951.
² Excludes deposits by States to account of the unemployment trust fund.

NOTE.—Figures from Budget for 1952.

budget. His proposals for increasing taxation were presented to the Congress in a message on February 2 and in greater detail by the Secretary of the Treasury in a statement on February 5. The President recommended that immediate increases be made in rates of existing taxes to raise at least 10 billion dollars of additional receipts and that later in the year further tax legislation be adopted to provide the remaining 6.5 billion needed to keep the Budget on a pay-as-you-go basis. Under this program revenues would keep pace with mounting expenditures and yet there would be time to consider some serious questions involved in enacting a complete tax program. The taxes recommended for immediate action by Congress would raise about 4 billion dollars from individual income taxes, 3 billion from the corporation income taxes, and 3 billion from selected excise taxes.

An increase in rates applied to individuals and corporations taxable under present laws would provide the additional revenue from individual and corporate income taxes. For individual income taxes an increase of 4 percentage points on each income bracket is

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recommended, together with an upward adjustment of the tax on capital gains. An increase of 8 percentage points in the corporation normal tax is recommended. The rate on the first \$25,000 of income would increase from 25 per cent to 33 per cent and the rate on income in excess of \$25,000 from 47 per cent to 55 per cent. In order to maintain the relationship established in the excess profits tax of 1950, the ceiling rate on income and excess profits tax combined would be increased from 62 per cent to 70 per cent.

The additional revenue from excise taxes would be raised from a few major sources. The recommendations include an increase in the tax on passenger automobiles from 7 per cent to 20 per cent, and on a number of other durable goods from 10 per cent to 25 per cent, of the manufacturers' price; in the tax on gasoline from 1½ cents to 3 cents a gallon; and increases of one-third to one-half in the tax rates on alcoholic beverages, cigarettes, and cigars.

In his message the President recommends that Congress continue with the program initiated last year of structural revisions to strengthen the income tax laws. The areas in corporation taxes which are pointed out for attention are depletion allowances in computing taxable income from oil and gas, sulphur, and other nonmetal extractive operations, and the favorable tax treatment of insurance companies, cooperatives, mutual savings banks, and building and loan asso-

ciations. Attention is also called to preferential treatment of capital gains and to possible structural changes in the excess profits tax in order to prevent profiteering.

Important considerations in connection with the individual income tax are the splitting of income by married people and the failure to apply the withholding principle to payments of dividends and interest. It is also indicated that the tax exemption of State and local Government securities and the methods of taxing estates and gifts should be re-examined.

* * *

Adequate taxation to balance the Budget should be the first aim of fiscal policy at the present time. Under existing conditions a Budget deficit, however financed, will increase inflationary pressures. Borrowing from banks, which would result in further expansion in the money supply, would be the most inflationary form of deficit financing. Borrowing from nonbank investors, while less inflationary during the rearmament period, would enlarge the public's holdings of Government securities and thus increase the prospects of greater inflationary pressures in the future. Additional taxation, which will bring Government revenues in balance with expenditures, is a first, and essential, step in moderating the inflationary impact of the increased Federal spending necessitated by the rearmament program.