

II. Levels of Economic Activity in 1947

THE COURSE OF EMPLOYMENT AND PRODUCTION

Employment

NINETEEN forty-seven was a record year for civilian employment. In June, civilian employment passed the sixty-million mark for the first time. Allowing for seasonal variations, employment in December (57.9 million) was at about the same level. Employment averaged 58 million for the year contrasting with an average of 55.3 million in 1946 and 47.5 million in 1940. (See appendix B, table VIII.)

This increase in employment was most pronounced in the manufacturing industries, with construction and mining registering sizeable percentage gains. Employment increased slightly in trade, finance, and services, and decreased in government.

Compared with 2.3 million in 1946, the number of unemployed averaged 2.1 million during 1947. In November and December, it dropped to 1.6 million, the lowest figure in two years.

Production

The total physical output of the economy in 1947 was about 7 percent above 1946, and about 76 percent above the 1935-39 average.

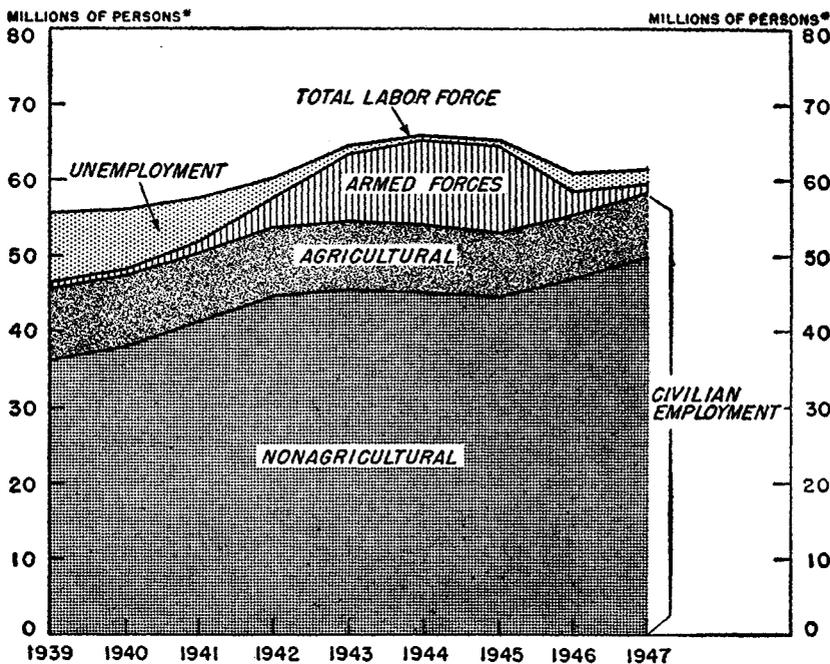
From 1946 to 1947 increased output was registered in each major category except agriculture. The total output of farm products dropped 3 percent due to the disappointing corn crop. The slight drop in agricultural output was more than balanced by increased production in manufacturing, minerals, construction, transportation, and electric and gas utilities. This is shown in chart 2 and appendix B, table XVI.

The above figures do not fully account for all changes in economic activity, since they do not include services such as trade, finance, and government. It is obviously impossible to measure precisely the production of such services in physical terms, but a rough indication is given by employment in the service industries. The number of persons in nongovernmental services in-

CHART I

THE LABOR FORCE

Civilian employment was at record levels in 1947.



*14 YEARS OF AGE AND OVER

SOURCE: DEPARTMENT OF LABOR (1939) AND DEPARTMENT OF COMMERCE (1940-47)

creased moderately from 1946 to 1947, but this increase was more than offset by a sharp drop in government employment, particularly military, as a result of demobilization.

With an increase of 7 percent in the physical output of goods and with a drop in services, it appears that the total increase in the output of goods and services together from 1946 to 1947 was less than 5 percent. Similar results are obtained by adjusting the gross national product for changes in prices.

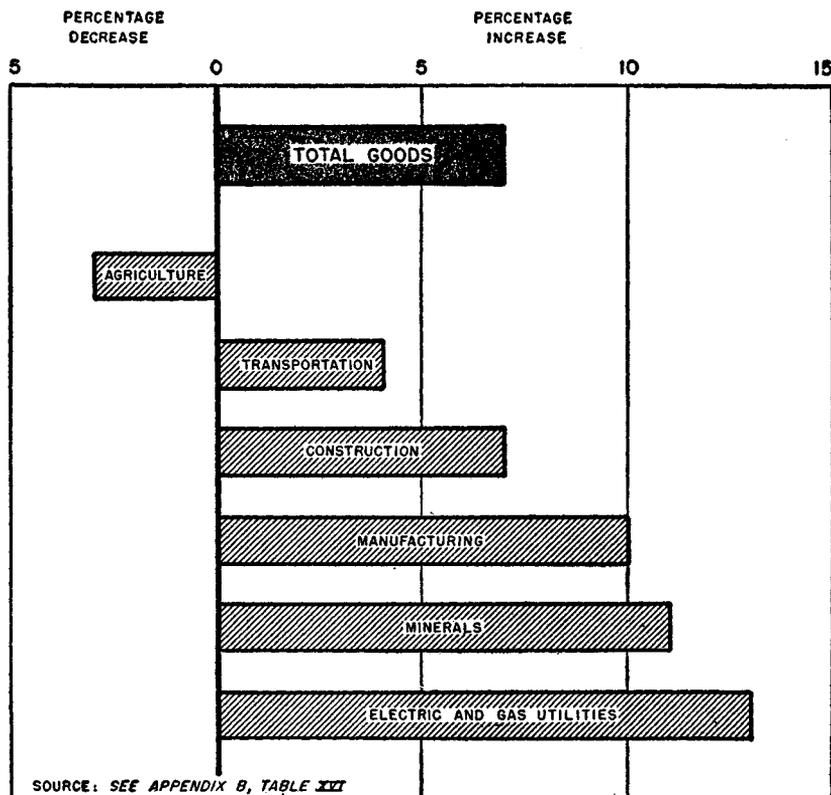
The first Economic Report stated the objective of increasing the total output of goods and services by about 5 percent from the end of 1946 to the end of 1947. Apparently the actual increase was below that objective.

Production trends were uneven during the year. The second quarter of 1947 marked a period of hesitation by individual consumers and business,

CHART 2

CHANGES IN PRODUCTION OF GOODS

Physical output in 1947 averaged 7 percent above 1946 — an increase for all industries except agriculture.



explicable partly by high prices and the expectation of early price reductions. The temporary drop in production was prolonged partly by the fact that many plants were shut down entirely during workers' vacation periods in July and August instead of attempting to stagger vacations over the year.

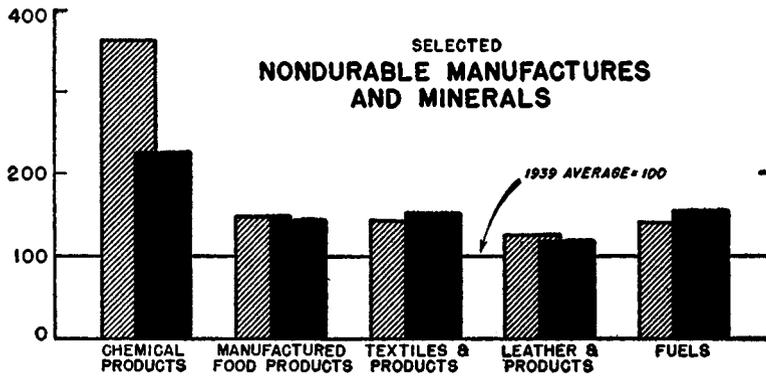
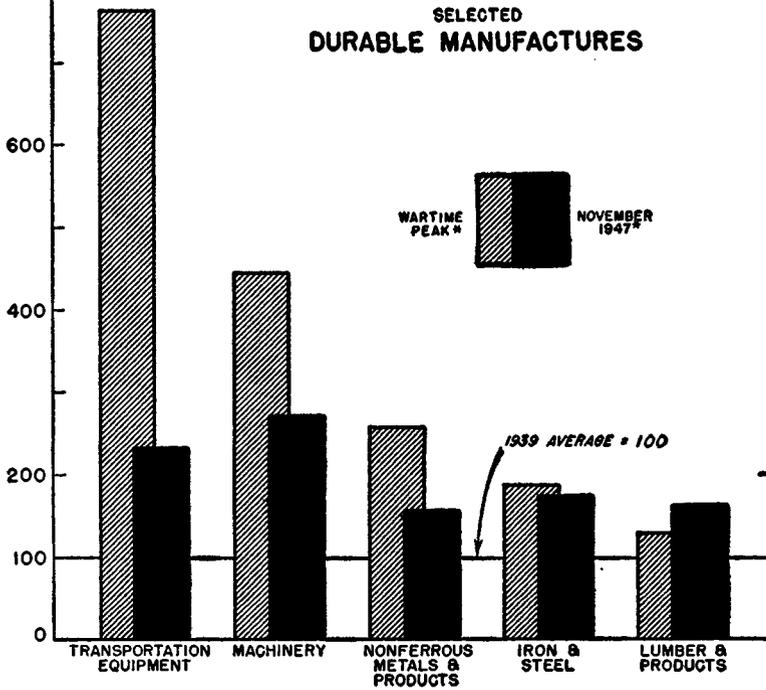
In the fall, restraining forces gave way to new forces of expansion. Steel, automobile, printing, and fuel output rose above the peaks reached early in the year. However, a number of industries continued to operate at lower levels, some because of a shortage of raw materials, some because of lagging demand. (See appendix B, table XV.)

CHART 3

INDUSTRIAL PRODUCTION

Output in 1947 was far above prewar in all major industries, and exceeded wartime peaks in some industries.

PERCENT OF 1939 AVERAGE¹



¹ CONVERTED FROM PUBLISHED BASE, 1935-39 = 100.

² SEASONALLY ADJUSTED.

SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

Productivity

Output per man-hour was somewhat higher in 1947 than in 1946. The increase in production for the economy as a whole was primarily the result of an increase in capital equipment and in employment. Since both capital equipment and employment expanded in manufacturing, the capital equipment available per worker (the most important single factor affecting productivity), increased slightly, if at all. In agriculture, even though capital equipment increased in 1947 over 1946 and employment remained almost constant, bad weather was primarily responsible for a decline of some 3 percent in output per farm worker. Output per worker was still far above prewar levels.

THE FLOW OF GOODS AND PURCHASING POWER

Purchasing power over the economy as a whole remained high throughout 1947, with resultant high demand for goods and services. The significance of this strong demand and high purchasing power, and particularly their bearing upon prices, can be more fully understood by tracing the flow of goods and income to domestic consumers and exports, to business and government.

Consumer income, expenditure, and saving

Full employment, high wages, and large proprietors' incomes—both industrial and agricultural—pushed consumers' incomes to record levels during 1947. Most of this money was spent, and a decreasing proportion went into net saving. Consumers drew increasingly upon credit to supplement their current earnings. Real purchasing power per capita has remained above prewar levels, but the sharp rise in prices has caused it to decline during the past 2 years. (See table 1.)

Consumer income. In 1946, total personal incomes were 177.2 billion dollars. Increases were registered in each quarter of 1947, reaching the annual rate of 205.3 billion dollars in the fourth quarter. Disposable personal income (total personal incomes minus taxes and similar payments) increased from 158.4 billion dollars in 1946 to an annual rate of 183.0 billion dollars in the last quarter of 1947. (See appendix B, tables III and IV.)

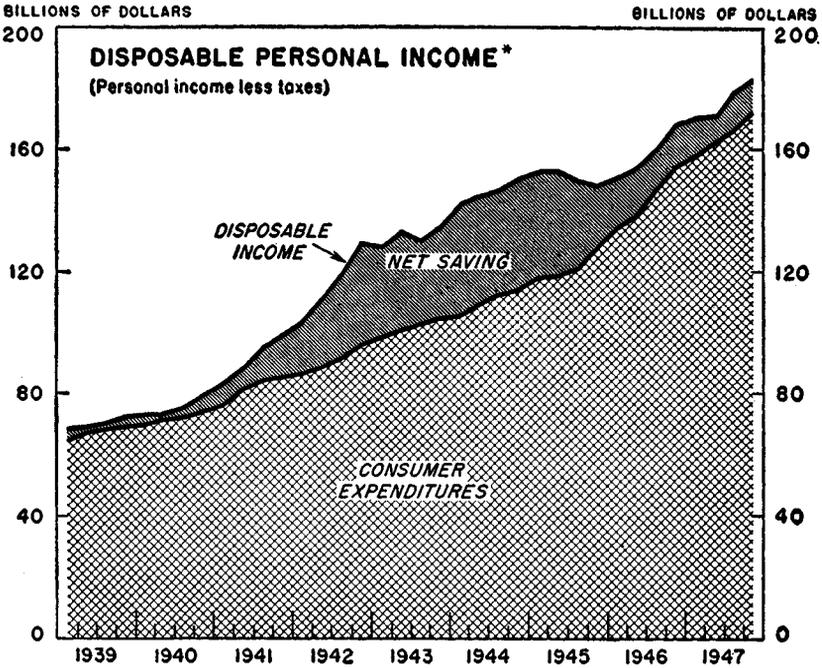
Although the disposable dollar income of the average American consumer reached a new high in 1947, the rapid rise in prices during the last 18 months caused its purchasing power to be less than in 1946. Consumption, however, was maintained by liquidation of past savings, a reduction of the saving out of current incomes, and the extensive use of consumer credit.

Changes in the purchasing power of the disposable income of the average consumer during 1946 and 1947 show the inability of incomes to keep pace

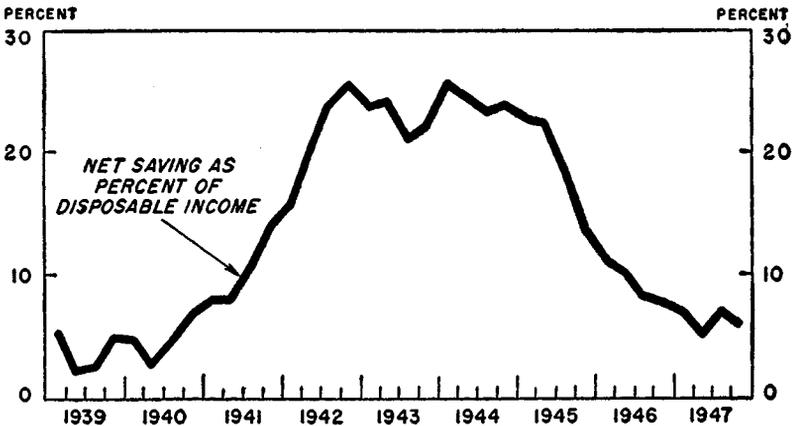
CHART 4

CONSUMER INCOME, SPENDING, AND SAVING

Spending increased more than income.



Rate of net saving continued to drop.



*SEASONALLY ADJUSTED ANNUAL RATES
SOURCE: DEPARTMENT OF COMMERCE.

with the inflationary rise in prices. Average disposable income, in terms of current dollars, has increased steadily since the first quarter of 1946, rising from \$1,074 then to \$1,264 in the fourth quarter of 1947, an increase of 18 percent. Yet its real purchasing power declined nearly 8 percent during the same period. The decline in real purchasing power was much greater for the millions of people whose incomes were fixed or lagged behind the increase in average incomes.

The initial impact of the elimination of price controls caused a substantial decline in real disposable income of consumers in the second half of 1946. The rate of decline slowed up in the first half of 1947, as the price rise tapered off and as incomes continued to increase owing to wage increases and a higher level of employment. During the third quarter, the cashing of veterans' terminal leave bonds, counted as addition to disposable income, halted momentarily the decline in real purchasing power in spite of the rapid rise in consumer prices.

TABLE 1.—*Per capita disposable income*
Personal income after taxes

Period	Current dollars	First half of 1947 dollars ¹
1935-39 average.....	513	797
1941.....	891	1,021
1944.....	1,057	1,308
1946.....	1,122	1,251
1947 ²	1,219	1,190
Seasonally adjusted annual rates:		
1946—First quarter.....	1,074	1,285
Second quarter.....	1,091	1,284
Third quarter.....	1,133	1,225
Fourth quarter.....	1,181	1,211
1947—First quarter.....	1,186	1,194
Second quarter.....	1,190	1,183
Third quarter.....	1,238	1,196
Fourth quarter ²	1,262	1,188

¹ Deflated by the consumers' price index, which cannot fully reflect changes in the quality and relative availability of higher-priced and lower-priced goods.

² Estimates based on incomplete data.

Source: Department of Commerce and Department of Labor. (See appendix B, table V)

The decline in the purchasing power of the average consumer's income since the middle of 1946 reversed a very desirable trend in the distribution of real income. High levels of employment and production during the war and postwar period had raised per capita disposable incomes, measured in first half of 1947 dollars, from an average of \$797 in 1935-39 to \$1,021 in 1941, and \$1,251 in 1946.

Not only did average incomes increase during this period, but also important changes occurred in income distribution. The relative increase in income (before taxes) was greatest for families in the lower- and middle-income groups. For example, the increase in incomes between 1941 and

1946 was over 60 percent for the lowest 40 percent of families and only 20 percent for the highest 20 percent of families. This is shown in the following table.

TABLE 2.—Average family income¹
Money income before taxes, 1946 dollars

Families grouped from lowest to highest income ¹	Money income before taxes, 1946 dollars			Percent increase	
	1935-36	1941	1946	1935-36 to 1946	1941 to 1946
Lowest fifth.....	\$446	\$498	\$835	87	68
Second fifth.....	969	1,275	2,023	109	59
Third fifth.....	1,515	2,243	3,050	101	36
Fourth fifth.....	2,284	3,225	4,201	84	30
Highest fifth.....	5,928	7,418	8,921	50	20
Average for all families ¹	2,229	2,932	3,806	71	30

¹ Includes single individuals.

Source: See appendix A, section III.

The table shows the increase in money incomes before taxes. If personal income taxes were taken into account, the relative improvement in the lowest income group would be more marked.

The greater increase in incomes in the lower and middle groups during this period is to be explained principally by the fact that more people were working in 1946, that more jobs were on a full-time basis, and that many families now had more than one person gainfully employed. Thus, the relative gain of these groups was mainly due to a greater availability of jobs. A second cause of the pronounced shift in distribution was that the share of the national income going to farmers, whose cash income was low relative to urban groups, had increased. Third, wage increases from 1941 through 1946 were greatest in the lower wage brackets.

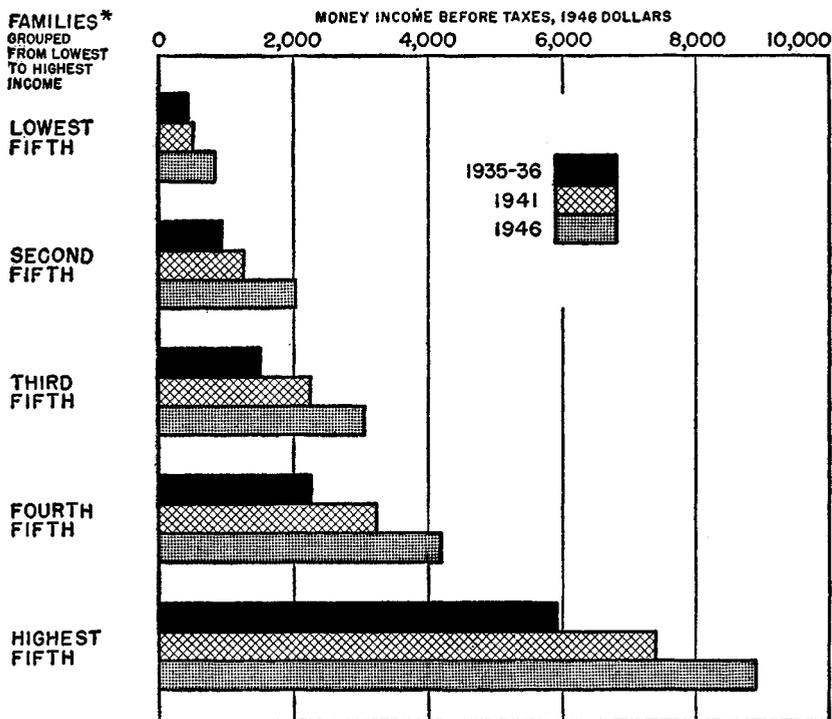
Under the influence of these trends, there has been a pronounced change in the type of family which constitutes the poorest 20 percent of the population. Many persons formerly unemployed, or farmers formerly operating at marginal levels, have moved out of the lowest group, while persons living on small fixed incomes have moved down relative to others. These trends undoubtedly continued in 1947, as the effects of inflation continued to raise the incomes of many groups, leaving others behind.

The number of persons living on relatively fixed incomes is large. Veterans living on pensions number about 3 million. Survivors and social-security beneficiaries total about 2 million persons, and veterans living on educational allowances, without other jobs, about 2 million. The number receiving public assistance at the end of 1946 was about 4 million, and this number is increasing. Some of these persons, of course, receive income from more than one of these sources, and some have other sources of income.

CHART 5

AVERAGE FAMILY INCOME

All groups received more income in 1946 than before the war. Greatest relative increases were in the lower and middle groups.



*INCLUDES SINGLE INDIVIDUALS.

SOURCE: SEE APPENDIX A, SECTION III.

Even in 1946, many families had incomes below what can be considered an adequate standard: 28 percent of the families had money incomes less than \$2,000, and 48 percent less than \$3,000. This is shown in the following table.

TABLE 3.—Percentage distribution of families, by income levels in 1946

Civilian money income classes (1946 dollars)	Percent of families ¹	Cumulated percent of families ¹
Under 1,000	12.8	12.8
1,000 to 1,999	15.4	28.2
2,000 to 2,999	19.5	47.7
3,000 to 3,999	18.4	66.1
4,000 to 4,999	13.0	79.1
5,000 to 7,499	13.0	92.1
7,500 and over	7.9	100.0

¹ Includes single individuals.

Source: See appendix A, section III.

Consumer expenditures. Since consumers as a whole spend most of their income currently, high levels of income have been accompanied by high levels of expenditure. Consumers were spending at a record annual rate of 172 billion dollars in the fourth quarter of 1947, compared with 144 billion dollars during 1946. This high rate of spending was a very important factor in the rise of prices.

The widespread expectation of price declines during the first half of 1947 caused many prospective purchasers to delay buying houses and durable goods. But for the year as a whole, minor shifts in patterns of demand were far overshadowed by the willingness and ability of consumers to buy.

Whether this willingness and ability to purchase will continue at current levels will be strongly affected by two factors emphasized in prior Economic Reports—consumer saving and consumer credit.

The decline in net saving. During 1947 consumers saved only 6.3 percent of their disposable incomes, a larger proportion than was saved in prewar years but well below the 1946 level of 9.3 percent. Desire to buy durable goods, the increased use of consumer credit, the pressure on low-income groups to retain wartime and immediate postwar living standards reduced the rate of net saving. (See appendix B, table IV.)

The decline in the rate of net saving was especially significant since families with high incomes and large accumulations tended to add to their holdings, while many low-income families reduced their holdings. Recent studies indicate that more than one-quarter of all spending units and almost half of those with incomes under \$2,000 a year held no liquid assets in 1947. Consumers who are drawing upon accumulated assets are now using these substantially for general living expenses and medical care, rather than for durable goods and housing. Such use of savings for current living expenses is an ominous sign for the economy as a whole.

Consumer credit. A gradual increase in consumer credit has bolstered the current purchasing power of consumers. The credit outstanding totaled 13.3 billion dollars at the end of 1947, an increase of 3.1 billion dollars over the level at the end of 1946, and 3.2 billion dollars higher than the previous peak reached in September 1941.

Consumers are using larger amounts of all forms of credit than they did a year ago. Total instalment credit increased over 50 percent, charge accounts, 11 percent, and other types of consumer credit, 19 percent. (See appendix B, table VII.)

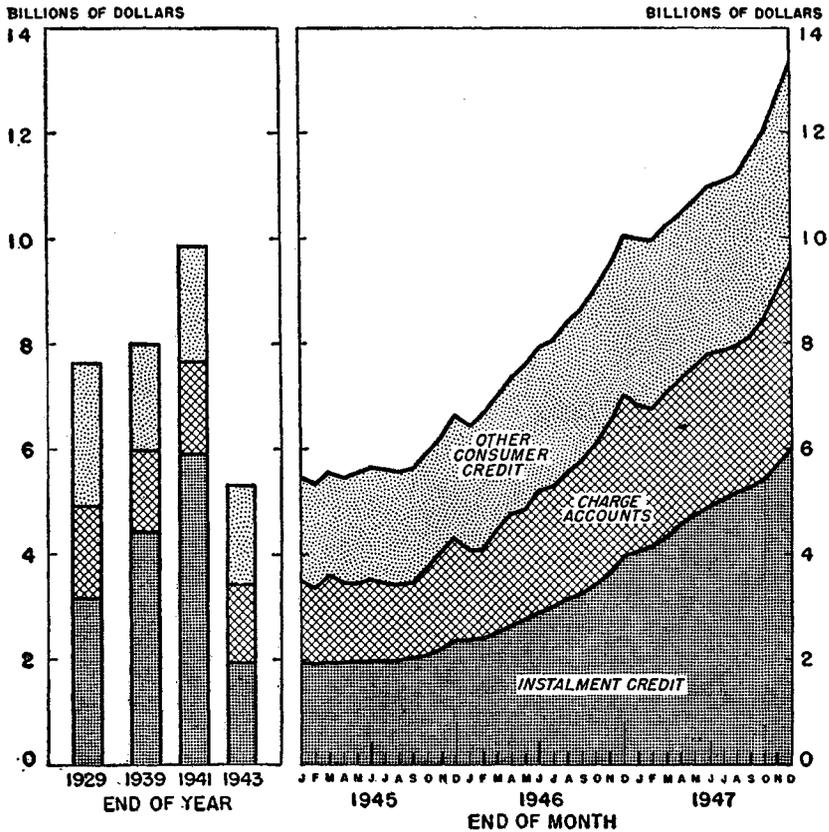
Although the present levels of credit are not alarmingly high in relation to the size of our economy, the increase that has occurred during the past two years has been adding to inflationary pressures.

This survey of consumer income and expenditures during 1947 points

CHART 6

CONSUMER CREDIT

Consumer credit continued its sharp rise in 1947.



SOURCE: BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM.

to two causes for concern. On the one hand, with supplementation of current incomes through the use of past savings and the extension of consumer credit, total consumer demand exceeded the portion of the total national output available for consumers after allowing for business and foreign demand. This excess added to inflationary pressure. On the other hand, the rapid rise in prices reduced the real purchasing power of consumers to the point where it will not be adequate to take the consumers' share of the national output at present prices when certain abnormal demands are reduced and when the rate of consumer saving cannot be further reduced. Since adjustment to meet conditions of this kind take time to

make, this underscores the need for prompt action to halt the rising cost of living. The present situation is particularly serious for consumers who have low incomes or who live on fixed incomes.

Business investment, income, and financing

The record level of business investment in 1947 was another major source of demand for goods and services, swelling the pressure upon our available resources. Business expenditures for plant, equipment, and additional inventories amounted to over 25 billion dollars in 1947 compared with about 21 billion in 1946. Nonfarm residential construction increased from 3.2 billion dollars in 1946 to 4.9 billion in 1947. These high levels of investment and residential construction in part reflected the effects of higher prices.

Domestic business investment: producers' goods. Business outlays for productive equipment were at record levels during the last three quarters of 1947 despite continued shortages of many basic materials and machinery items. Total outlays for new equipment in 1947 were about 40 percent greater than in 1946, with about a third of this increase representing higher prices. These heavy expenditures for producers' goods were a direct and important stimulus to the economy. Plant and equipment outlays were high in every major field, but were particularly noteworthy in utilities, transportation, and those lines of manufacturing, such as textiles, which had not undergone a normal rate of expansion or modernization of facilities during the war period.

Most types of industrial equipment were in considerably easier supply at the end of the year than at the beginning, as equipment manufacturers expanded capacity, completed their reconversions from wartime production, and balanced their inventories. In some fields, primarily utilities and transportation, the backlog of commitments for new facilities was still great at the year's end. This was also true of some important manufacturing industries such as steel, coke, and oil, where expansion programs extending beyond 1948 were announced.

Although the rate of replacement and improvement of productive equipment will vary in response to the outlook for demand, prices, and costs, it appears that total plant and equipment outlays may be leveling off. Industrial construction contracts have remained well below the high levels of 1946. In many industries, postwar expansion programs for capacity are nearly completed. According to the latest quarterly survey by the Securities and Exchange Commission and the Department of Commerce, all major categories of business plan to spend less on plant and equipment in the first quarter of 1948 than in the preceding quarter, though more than was actually spent in the first quarter of 1947. (See appendix B, table XIX.)

Inventories. Accumulation of business inventories, which had been a substantial supporting factor in the demand for goods through 1946 and the early part of 1947, was interrupted in the middle of the year but resumed in the fall. After allowance for normal seasonal variation, the rate of accumulation in physical terms during the last quarter of the year was about the same as that of the first quarter of 1947, but well below that of the fourth quarter of 1946. The book value of all nonfarm business inventories rose about 8 billion dollars during 1947, a substantial part of this amount representing price increases.

Initial programs of postwar restocking in nondurable lines had been substantially completed early in 1947, and expectations of a decline in sales and prices led to a more than seasonal cutback of inventories in the second quarter. In durable goods lines, with considerable backlogs of consumer demand, accumulation was only slowed. As business optimism revived during the latter part of the year, inventories were again built up at increasing rates in nondurable lines, particularly at the retail level.

Short stocks of some durable items continue to hamper industrial activity. But in contrast to the inventory accumulation of a year ago, which represented restoration of war-depleted stocks, the recent wave of accumulation appears to have been based largely on the expectation of further price rises in lines where stocks are already adequate. Though overall ratios of inventories to sales are still below prewar ratios, liquidation of inventories in case of a decline in sales raises a greater potential threat to the maintenance of production and employment than has been the case at any time since the war began. (See appendix B, tables XX and XXI.)

Private construction. The construction industry expanded less in 1947 than most major sections of the economy in terms of physical activity. Though its dollar volume was high, the physical volume was actually less than it had been in any year from 1923 to 1930. There was a sharp increase in construction costs in 1947, with average costs reaching a level double what they were in 1940. In the decade following the first World War the construction industry represented about 10 percent of the economy. It now represents only about half that percentage. Unless important changes are made in present methods and prices, its relative importance may continue to decline. This problem, as it relates to housing, is discussed more fully in Section V. (See appendix B, tables XVII and XVIII.)

The number of housing units completed in 1947 was nearly double that of 1946, and the backlog of houses under construction was as great by the end of the year as at the beginning despite the reduction in construction time and the increased volume of completions. Current high costs, however, raised question as to the ability of the industry to continue to operate at current levels, in the residential field at least. A promising development

was the ability of many construction companies to shift from nonresidential to residential construction. Men and materials which were producing factories and commercial construction in 1946 were producing housing in 1947.

Business income and financing. Business income in 1947 remained consistently above the level of any previous year. The need for business funds, however, was also unprecedented due in large part to higher prices. Business spent about 25 billion dollars during the year on plant, equipment, and increase of inventories, exclusive of almost 5 billion dollars devoted to residential construction. In addition, the increased cost of inventories due simply to rising prices amounted to about 6 billion dollars.

Business corporations, while paying out a record amount in dividends, retained the remarkably high proportion of five-eighths of their profits after taxes in 1947. (See appendix B, table XXII.) Consequently, reinvested corporate earnings were a much more important source of business funds in 1947 than ever before, providing 10.3 billion dollars compared with 6.9 billion the previous year. Retained corporate earnings in 1947 were about double the annual retention during the war years and four times those of 1929. The general profit situation is discussed more fully in Section III.

Accruals to depreciation and similar reserves were higher than in 1946. Due to increased costs, these allowances were generally insufficient in themselves to finance replacement of plant and equipment.

In addition to the internal financing from current receipts, business also drew upon its previously accumulated liquid assets, though to a much smaller extent than in 1946. Nonfinancial corporations, for example, reduced their liquid assets by around 1.5 billion dollars in 1947 compared with 5.5 billion dollars in 1946. This drop was substantial even when allowance is made in the 1946 figure for the elimination of the excess profits tax which permitted firms to begin holding a smaller volume of liquid assets as a reserve for tax payments.

Flotation of securities for new capital provided around 4 billion dollars in 1947, compared with 3.3 billion in the previous year. The increase was in fixed-interest types of securities, reflecting particularly a great increase in the proportion of the total offerings made by utilities. The securities markets furnished less equity capital. Further, it is interesting to note that, while in 1947 the issues for new capital amounted to only around one-sixth of total financial requirements of business, in 1929 they amounted to around 60 percent. Moreover, only about 30 percent of the 1947 new capital issues were of the equity type rather than fixed-interest-bearing securities, compared with about 75 percent in 1929.

Another important outside source of funds to finance the investment program of business was bank loans. Banks furnished almost as much new

credit to business in 1947 as in 1946. Most of the expansion of bank credit took place in the second half of 1947.

Commercial bank loans to business, including the purchase of open market paper and excluding agricultural loans, increased during 1947 by about 4.2 billion dollars, compared with an increase of 4.6 billion dollars during 1946. Agricultural loans, which had remained stable during 1946, increased in 1947. Although outstanding loans declined temporarily during the second quarter, the rise in commercial credit in the latter part of the year was so rapid as to cause concern in the prevailing inflationary situation. (See appendix B, table XXVII.)

In residential construction, the estimated mortgage indebtedness upon one- to four-family structures increased about one-half billion dollars in 1945, 4.5 billion in 1946, and 5.5 billion in 1947. Thus, for the last two years, mortgage indebtedness has been rising faster than the construction expenditures on new housing. There has been no important shift in the source of funds for this financing. Saving and loan associations accounted for about one-third of the value of mortgages recorded, banks for about one-fourth, individuals for over one-sixth, and miscellaneous groups for the remainder. The size of the average mortgage has been rising and is now about 30 percent higher than it was two years ago. Veterans' loans guaranteed by the Government increased from 17 percent of the total number of recorded residential loans in 1946 to 21 percent in the first 10 months of 1947. The proportion of new housing started which has been financed with FHA insurance increased from 10 percent in 1946 to 26 percent in the first 11 months of 1947.

During 1947, as in other years, the situation regarding business investment, income, and financing was not uniform for all firms and industries. Some businessmen experienced difficulties in floating new capital on the security market. Others reached the limit of what they regarded as the safe use of bank credit. Most business required large amounts of additional working capital for carrying inventories at increasing prices and for meeting payrolls at higher wage rates. But after making allowance for these factors, it remains clear that the extraordinary rate of business income in general allowed investment to proceed at record levels. Even greater expansion was prevented mainly by lack of material rather than by lack of intention to invest or lack of financial resources.

International transactions

Our international transactions during 1947 were characterized by a very rapid expansion of exports of goods and services in the early part of the year, followed by a decline. Since imports of goods and services did not change much during the year, the export surplus rose and then fell corre-

spondingly. For the year as a whole, exports of goods and services exceeded imports by more than 11 billion dollars, compared with 8.1 billion in 1946. The lack of balance in our trade was thus intensified. Quarterly movements are shown in the following table:

TABLE 4.—United States exports and imports of goods and services

[Billions of dollars, annual rate]			
Period	Exports of goods and services ¹	Imports of goods and services ¹	Export surplus
1936-38 average.....	4.1	3.6	0.5
1946—First quarter.....	14.3	7.2	7.1
Second quarter.....	16.4	6.5	9.9
Third quarter.....	15.0	7.1	7.9
Fourth quarter.....	15.3	7.6	7.7
1947—First quarter.....	18.7	8.0	10.7
Second quarter.....	21.0	8.2	12.8
Third quarter.....	18.6	8.1	10.5
Fourth quarter ²	19.6	8.0	11.6

¹ Includes income on investments.

² Estimates based on incomplete data.

Source: Department of Commerce.

The increase in the export surplus during the first part of 1947 reflected shipments of goods not only to Europe but also to the countries of this hemisphere and to other continents. (See appendix B, table XXXII.) It resulted primarily from an increased physical quantity of exports of manufactured products, although increased shipments of grain and higher prices for all types of exports contributed to the rising dollar total. There was an intense need for goods in Europe, and high demand and purchasing power in other countries.

Since foreign countries were able to increase their sales of goods and services to us only slightly, they had to utilize the aid extended by the United States Government and their gold and dollar assets much more rapidly than in 1946. As table 5 shows, these two forms of financing, which were being utilized at a combined annual rate of 7.6 billion dollars in the last quarter of 1946, were drawn on at a rate of 11.7 billion in the second quarter of 1947.

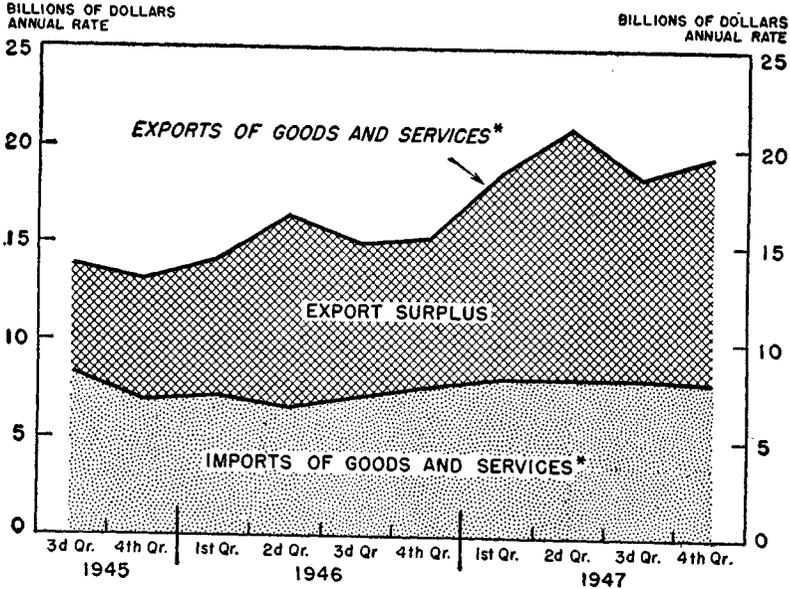
The rate at which foreign countries were utilizing United States credits and their own gold and dollar assets was depleting these resources rapidly and the ability of some countries to import from the United States was being exhausted. Many of these countries were forced to put more rigid restrictions upon their purchases from the United States.

During the first half of 1947, the increase in the export surplus accounted for about half of the total increase in the money value of total national production. Exports of nonagricultural commodities directly and indirectly provided employment for nearly 2.5 million workers in nonagricultural

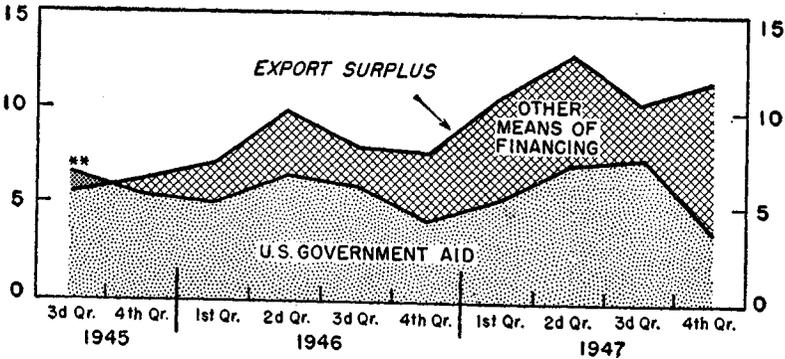
CHART 7

EXPORTS AND IMPORTS OF GOODS AND SERVICES

Exports increased much more than imports in 1946 and 1947, resulting in a larger export surplus.



U. S. Government aid continued to be a major factor in financing the export surplus



* INCLUDES INCOME ON INVESTMENTS.

** IN THIS QUARTER, OTHER MEANS OF FINANCING WERE NEGATIVE. FOREIGN COUNTRIES ACCUMULATED GOLD AND DOLLAR BALANCES BECAUSE U. S. CASH PAYMENTS FOR IMPORTS EXCEEDED U. S. CASH RECEIPTS FOR EXPORTS.

SOURCE: DEPARTMENT OF COMMERCE.

TABLE 5.—Financing the excess of goods and services supplied to foreign countries

[Billions of dollars, annual rate]

Period	Total excess of exports of goods and services ¹	Means of financing			
		Government aid (net) ²	Liquidation of short-term capital and gold by foreign countries (net)	Private gifts and remittances (net)	Other means of financing (net) ³
1936-38.....	0.5		1.1	0.2	-0.8
1946—First quarter.....	7.1	5.0	.9	.6	.6
Second quarter.....	9.9	6.5	2.1	.7	.6
Third quarter.....	7.9	5.8	.8	.6	.7
Fourth quarter.....	7.7	4.2	3.4	.7	-.6
1947—First quarter.....	10.7	5.3	4.6	.6	.2
Second quarter.....	12.8	7.0	4.7	.7	.4
Third quarter.....	10.5	7.6	3.4	.6	-1.1
Fourth quarter ⁴	11.6	3.5	4.5	.8	2.8

¹ Includes income on investments.

² Excludes investment in International Bank and Monetary Fund. See appendix B, table XXXI for types of Government aid.

³ Includes disbursements by International Bank and Monetary Fund, movement of private long-term capital and private and U. S. Government short-term capital, and errors and omissions.

⁴ Estimates based on incomplete data.

Source: Department of Commerce.

industries. In some of the durable goods manufacturing industries, the employment resulting from exports approached 20 percent of the total. It is clear from these facts that our exports during the first half of the year had an important bearing upon total levels of employment and production and upon the level of prices. Foreign demand for certain products in relatively short supply, such as grain and steel, when added to high domestic demand, continued to exert inflationary pressure at these strategic spots in the economy throughout the year. (See appendix B, tables XXXIV and XXXV.)

Government transactions

Expenditures. During 1947, the Federal Government reduced its spending. Federal cash payments to the public in 1946 and 1947 are shown in table 6.

The largest items of expenditure in 1947 were for defense, veterans, international affairs, interest, tax refunds, and social security. These accounted for about 85 percent of total cash expenditures. (See appendix A, table X.)

During the year, expenditures of State and local governments rose above 12 billion dollars, compared with 10 billion dollars in 1946. Part of this increase resulted from payment of bonuses to veterans by the States, totaling almost 400 million dollars in 1947, as compared with only a few million dollars in 1946. Receipts and expenditures of State and local govern-

TABLE 6.—Federal cash payments to the public

[Billions of dollars]

Group receiving payment and type of payment	Calendar year 1946	Calendar year 1947 ¹
Individuals:		
Salaries and wages of Federal personnel:		
Military ²	6.7	3.5
Civilian.....	6.5	6.1
Pensions and other payments to veterans ³	6.9	6.9
Social welfare beneficiaries.....	2.0	1.9
Loans to home owners.....	4-.3	4-.1
Interest on Federal debt.....	1.2	1.4
Refunds of taxes.....	1.6	1.6
Total.....	24.6	21.3
Business:		
Payments for purchases of goods and services ⁴	12.8	8.5
Subsidies and other payments to farmers.....	.9	.8
Loans and subsidies to business.....	6-.5	.1
Interest on the Federal debt.....	2.4	2.3
Refunds of taxes.....	2.4	1.0
Total.....	18.0	12.7
International:		
Loans to foreign governments.....	1.5	3.6
Subscriptions to and membership in international organizations ⁷3	1.9
Total.....	1.7	5.5
State and local governments (grants-in-aid, interest on Federal debt, and loans).....	1.2	1.6
Adjustment to daily Treasury statement basis.....	-.4	.2
Total, Federal cash payments to the public.....	45.3	41.3

¹ Preliminary estimate based on incomplete data.

² Includes dependency allowances.

³ Includes mustering-out pay and cash terminal-leave pay.

⁴ Repayments exceed loans.

⁵ Includes purchases made by this Government for occupied areas and other overseas relief.

⁶ Repayments exceed loans and subsidies.

⁷ Includes subscriptions to the International Monetary Fund and Bank, membership in the United Nations and other international organizations.

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

ments were probably in approximate balance for the calendar year 1947 as a whole, but during the second half of the year expenditures began to outrun receipts, thus adding somewhat to the inflationary pressure. (See appendix A, table V.)

Construction expenditures of 1.2 billion dollars by the Federal Government in 1947 were somewhat higher than in 1946, although the physical volume of work performed declined. Similar outlays by State and local governments were about 1.8 billion dollars, an increase of about two-thirds above the 1946 level in dollar terms.

Despite the war-created shortage of urgently needed public facilities, State and local governments, as well as Federal agencies, have shown commendable restraint in refusing to undertake new construction activities in the face of high prices. Both State and Federal public-roads officials have been meeting constantly with engineers and contractors to hold down costs by simplifying their designs and improving their working methods. Other Federal agencies are also employing these techniques.

Receipts and debt management. While cash payments to the public were being reduced, Federal cash receipts during 1947 were at the record peacetime level of 46.9 billion dollars and exceeded payments by over 5.5 billion. The sources of these receipts were as follows:

TABLE 7.—Federal receipts from the public other than borrowing

[Billions of dollars]		
Source	Calendar year 1946	Calendar ¹ year 1947
Personal taxes.....	18.8	21.0
Corporation taxes.....	11.0	9.2
Employment taxes ²5	.7
Excises and customs.....	7.7	7.7
Miscellaneous receipts.....	3.5	4.7
Total budgetary receipts.....	41.5	43.2
Receipts of trust accounts ¹	4.0	3.7
Total cash receipts.....	45.5	46.9

¹ Estimates based on incomplete data.

² Net appropriation to Federal old-age and survivors insurance trust fund is excluded from employment taxes but included in trust-account receipts.

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

The cash surplus of over 5.5 billion dollars in 1947 was used primarily to reduce the volume of Federal debt held by the banks. Retirement of securities owned by commercial banks, and especially Federal Reserve Banks, has been emphasized in order to secure a maximum deflationary effect from the Federal program of debt reduction. Total bank holdings of Federal securities were under 92 billion dollars at the end of the year. This is 25 billion dollars below the peak in February 1946 and more than 6 billion dollars below the level of bank holdings at the end of 1946.

At the present time the gross national debt is under 257 billion dollars, as compared with a peak of 279.8 billion dollars on February 28, 1946. However, the Treasury cash balance at the present time is under 3 billion dollars, although when the debt was at its highest point, the balance was about 25 billion dollars. At the present time about 34 billion dollars of the Federal debt is held by Government agencies and trust funds with the remaining 223 billion dollars in private hands. (See appendix B, table XXX.)

In addition to the cash basis for recording Federal expenditures, receipts, and surplus used in this Report, there is the conventional budgetary concept used in the Budget Message. A detailed reconciliation between these two methods is shown in appendix A, section II.

The difference between the cash surplus of over 5.5 billion dollars and the budgetary surplus of about 2.5 billion dollars in 1947 is accounted for largely by the increase in social security reserves. Appropriations to social security funds, whether used for payments of benefits, or for reserve accumulation are a charge on the budget, thereby reducing the budget surplus in

the conventional definition. Using the cash concept, however, the excess of social insurance contributions over benefit payments appears as an addition to the Government surplus. Such surplus has a counter-inflationary effect, as it comes out of labor and business incomes, thereby decreasing demand.

This survey of Government transactions during 1947 indicates that high taxes and reduced expenditures have partly offset the powerful inflationary pressures in other sectors of the economy.

Summary: The Nation's Economic Budget

The Nation's Economic Budget summarizes in a few broad figures the flow of goods and purchasing power through the main sectors of the economy: consumer households, business, Government activities, and the international area. The following table portrays our economy in action and transition during 1946 and 1947:

TABLE 8.—*The Nation's economic budget, calendar years 1946 and 1947*

Accounts	Calendar year 1946			Calendar year 1947, seasonally adjusted annual rates ¹					
	Re-ceipts	Ex-pend-itures	Excess (+) or deficit (-)	First half			Second half		
				Re-ceipts	Ex-pend-itures	Excess (+) or deficit (-)	Re-ceipts	Ex-pend-itures	Excess (+) or deficit (-)
Consumers:									
Disposable income.....	158.4			170.3			180.8		
Expenditures.....		143.7			160.0			169.0	
Saving (+).....			+14.8			+10.3			+11.8
Business:									
Undistributed profits and reserves.....	13.3			17.4			17.8		
Gross domestic investment:									
New construction.....		8.5			10.0			11.2	
Producers' durable equipment.....		12.4			17.2			18.0	
Change in inventories.....		3.7			2.1			2.5	
Total.....		24.6			29.3			31.7	
Excess of receipts (+) or investment (-).....			-11.3			-11.9			-13.9
International:									
Net foreign investment.....		4.8			9.4			8.2	
Excess of receipts (+) or investment (-).....			-4.8			-9.4			-8.2
Government (Federal, State, and local):									
Cash receipts from the public.....	56.5			59.7			58.7		
Cash payments to the public.....		55.2			54.2			52.7	
Excess of receipts (+) or payments (-).....			+1.3			+5.5			+6.0
Adjustments to arrive at gross national product.....	-24.5	-24.5	0	-21.4	-26.8	+5.4	-19.8	-24.1	+4.3
Total gross national product.....	203.7	203.7	0	226.1	226.1	0	237.4	237.4	0

¹ Estimates based on incomplete data.

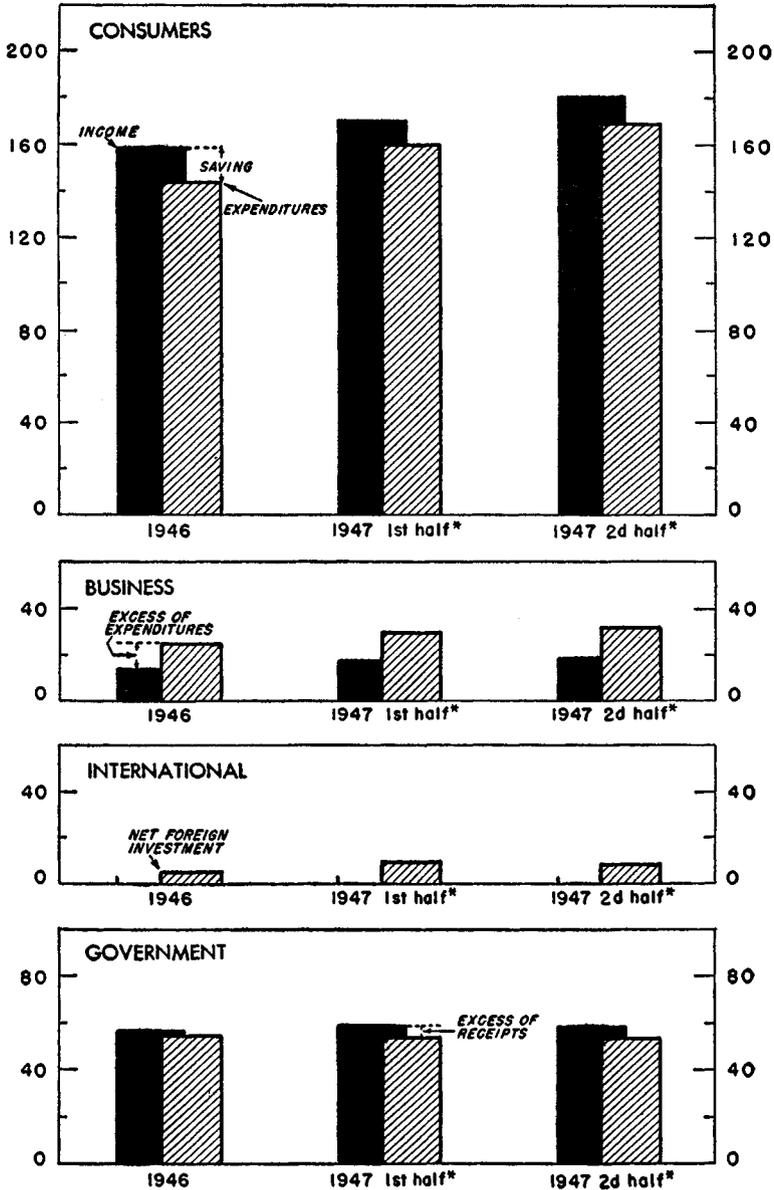
Note.—Detail will not necessarily add to totals because of rounding.

Source: See appendix A, section I.

CHART 8

THE NATION'S ECONOMIC BUDGET

BILLIONS OF DOLLARS - CURRENT PRICES



*SEASONALLY ADJUSTED ANNUAL RATES.
 NOTE: THE COMPONENTS DO NOT ADD TO THE GROSS NATIONAL PRODUCT BECAUSE OF CERTAIN ADJUSTMENTS. SEE APPENDIX A.
 SOURCE: SEE APPENDIX A.

The changes in the Nation's Economic Budget between 1946 and 1947 showed increases in all major categories except government expenditures. While a higher price level enlarged the dollar size of these increases, the fact that they were not the same in all categories indicated significant shifts in the composition of the economy in action.

While consumers' expenditures increased 14 percent, investment expenditures for construction, equipment, and inventories increased 24 percent, and net foreign investment by 83 percent. Thus, in the expansion of the Nation's Economic Budget from 1946 to 1947, the relative increases in outlays by business and net foreign investment were much greater than the increases in consumer expenditures. This is all the more significant as the rise in consumers' disposable income was 3.5 billion dollars less than the increase in consumers' expenditures, which indicates that consumers financed a growing part of their purchases by consumer credits, use of past savings, or a smaller rate of new saving. Consumers saved about 11 billion dollars in 1947 while net exports plus the excess of domestic investment over retained corporate earnings and reserves totaled about 22 billion dollars. A considerable portion of the increase in personal incomes and profits was absorbed by taxes, while government cash expenditures declined. The large tax collections functioned as a kind of forced saving, supplementing individual saving and business saving in financing the huge net outlays for domestic capital formulation and the export surplus.

A comparison of the estimates for the first and second halves of the year 1947 shows substantial changes in the component sectors of the economy. Outlays for producers' durable equipment, which increased very rapidly during the first half of 1947, expanded only slightly in the second half of the year. The rate of increase in inventories dropped in the first half of 1947, and rose again in the second half of the year. The export surplus declined somewhat in the last half of the year. Consumer expenditures and new construction increased all through the year in dollar terms.

Viewed as a whole, the adjustments within the economy during 1947 were sufficient to maintain maximum employment and high production throughout the year. That this should have occurred during a year of considerable flux indicates the flexibility and strength of the economy.

This, however, does not necessarily mean that capital investment, exports, and domestic consumption grew in balanced proportion or that the factors which maintained high-level activity through 1947 can be regarded as the ordinary and permanent elements of economic growth. Price increases operated to hold the purchasing power of consumers at levels which would have been insufficient to permit absorption of the full output had it not been for the extraordinary export surplus, the use of savings and credit at abnormal rates, and the continuance of backlog business demands.