

To the Congress of the United States:

The past year has been marked by great gains in our basic economic strength. These gains have enabled us to move forward toward our security objectives with far less strain upon the economy than would otherwise have been possible.

It is the tragic necessity of our time that we and other peace-loving peoples must devote so large a part of our resources to building up our military strength. But it is because we seek peace—a just and lasting peace—that we have shouldered this burden. If, despite our best efforts, another world conflict should come, the cost would be beyond description. If we succeed in the effort for peace, our productive ability will enable us to achieve a material well-being never before known.

This effort for peace finds the people of the United States substantially in agreement. We all know that we must stand firm against aggression, build up our defenses, cooperate with other free peoples, and hold the door open for the fair settlement of international disputes. Our basic international policy is backed by national unity.

But our foreign policy cannot succeed, if there is excessive division on domestic matters. Economic issues and international issues are now inseparably connected. It is a fundamental fact that the defense program itself, and our aid to friendly nations, must be related to the capacity of our economy. If we overestimated the strength of our economy, we could weaken our power to resist aggression. If we underestimated its strength, we could fall short of doing the things that can and must be done to prevent aggression.

Without continued economic growth, the defense burden could make us weaker year by year. Without economic stability and control of inflation, the resulting hardships could disastrously affect millions of our people. Without agreement on economic fundamentals at home, group conflicts or political conflicts could weaken our ability to withstand the communist threat.

It is only natural that the scope and operation of a program of this magnitude should evoke some disagreement and criticism. This can be constructive. But it would be most unfortunate if, in those economic matters which affect our world security, we were divided by narrow partisanship rather than united by the desire to find the best possible solution.

To agree upon wise policies, it is essential to know and understand the facts. These facts are available, and they are compelling. They show

that our basic economic strength is greater than it was a year ago. They point the way to the necessary policies that we should follow. They reveal why all of us can and need to stand upon common ground.

The Nation's Economy Grows Stronger

The decision to resist aggression in Korea was not the first postwar evidence of American strength which confounded the communist imperialists. The first and equally important evidence came earlier, when the American economy after World War II, instead of slipping into a depression, moved forward to greater strength.

Comparing the year 1947 with the year 1950, before our economy was greatly affected by the new defense program, civilian employment rose from 58 million to 60 million. Unemployment during those years averaged about 2.7 million, which was low by previous peacetime standards. Our total annual output, measured in uniform (1951) prices, rose from about 270 billion dollars to about 300 billion.

This growth in our economy accelerated rapidly after the Korean outbreak. In the year and a half since then, our annual rate of total output, in terms of 1951 prices, has risen by about 30 billion dollars, or 10 percent, to 330 billion dollars. By the end of 1951, civilian employment mounted to about 61 million, and unemployment was about 1.7 million.

Thus, comparing 1947 with the current situation, the annual output of the economy, in constant prices, has risen by about 60 billion dollars. Total civilian employment is now about 3 million higher than 4 years ago.

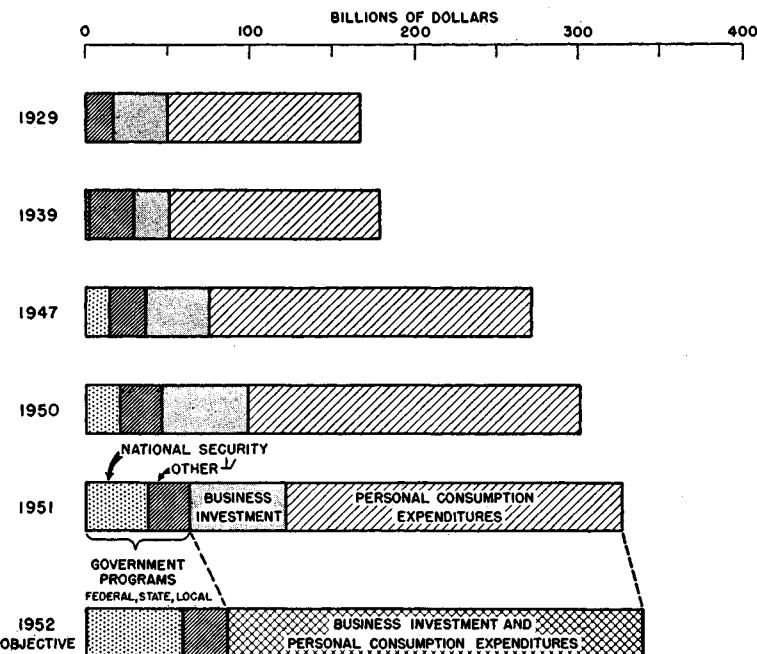
This expansion of our economy has occurred because the American people have never lost faith in progress. They have rejected the idea that we have reached, or will ever reach, the last frontiers of our growth. Businessmen, workers, and farmers have dared to produce more and more, confident that we had the ingenuity and the imagination to utilize this increasing abundance. They have not been held back by the fear that we would get into a depression by not knowing how to make use of the blessing of full production and full employment.

An expanding economy has paid particularly rich dividends, in helping us to assume new burdens of world responsibility. In 1947, we justly regarded ourselves as having reached remarkable levels of production and productivity, compared with any prewar year. Our total output, measured in 1951 prices, was more than 90 billion dollars higher than in 1939, and more than 100 billion above 1929. But since 1947, the 60-billion-dollar increase in annual output has been greater than the total cost of the security program in 1951. (See chart 1.) The high level of production helped to hold inflation in check during most of 1951, despite a rapidly rising security program. The growth of production during the last few years now enables us to carry the security program without undue impairment of

CHART 1

BUILDING OUR STRENGTH GROSS NATIONAL PRODUCT IN 1951 PRICES

In 1952, we should be able to increase total production by about 5 percent. This will help to meet the needs of the expanding security program.



SOURCES: DEPARTMENT OF COMMERCE AND COUNCIL OF ECONOMIC ADVISERS.

the rest of the economy. Despite the defense burden, the past year witnessed a production of tools, factories, automobiles, housing, household goods, and food that was very high—and, in some cases, record-breaking.

In the light of this experience, we should hold fast to the principle of an expanding economy. During 1952, we can and should lift employment by another $1\frac{1}{3}$ million. Some further reduction in unemployment may be possible, despite the fact that additional defense-created unemployment in some local areas appears inevitable. We can and should lift our total output by at least another 5 percent, or by 15 to 20 billion dollars. We should adopt policies which pave the way for a continuation or acceleration of these productive gains in the years further ahead.

Such progress will have many advantages. It will give us even greater strength to meet any aggressor. 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. And if we succeed in attaining a durable peace, our expanding economy can double our standard of living within a generation.

Viewing the next 2 hard years, the productive capacity of the United States leaves no room for faintheartedness or defeatism about our ability to carry whatever necessary burdens the international situation may impose upon us. But we cannot afford to be complacent. In moving ahead confidently to what must be done, we should not overlook the points of weakness or vulnerability in our economic system. Our resources are bountiful, but we must make the most of them by careful use.

How We Use Our Strength

Economic strength, in these times, is not only a matter of size. If we should devote too much of our productive power to building up our standard of living, while the communists build up their armaments, we could fall far behind despite our immensely greater economic potential. We must use our strength in the right way.

In a total war, our course would be plain. We would build up our striking forces as rapidly as possible, and sacrifice all else to that purpose. In a fully peaceful situation, our course would also be plain. We would reduce armaments, and devote our full resources to the pursuit of what we count as the good things of life. But for the time being, and perhaps for a long time, we must sail a middle course in an uncertain sea.

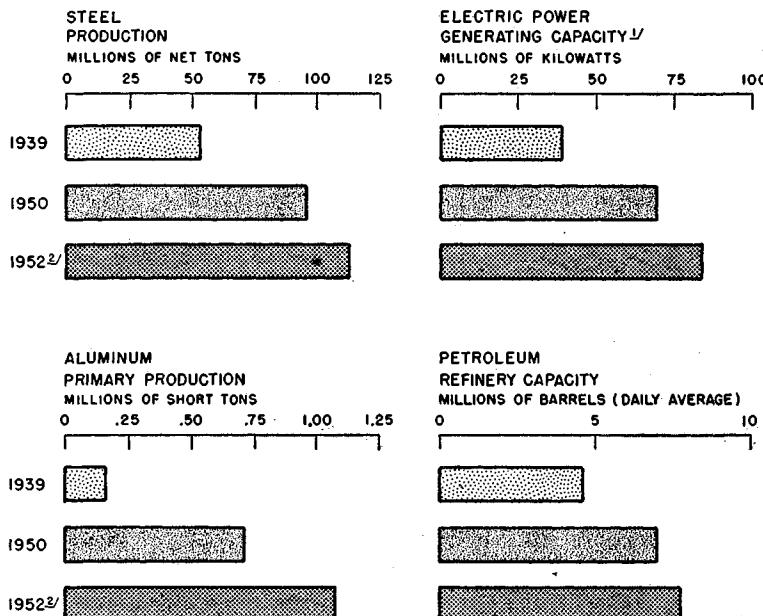
The whole mobilization effort is based upon the economic strategy of following this middle course. This means keeping strong all three components of our total strength—military, industrial, and civilian. We are making allowance for the possibility that war could come suddenly. But we are also making allowance for the possibility of a long period of international tension without total war. It is a mistake to oversimplify this problem by calling it a conflict between guns and butter. We must strive for the amounts and kinds of “guns,” of “tools,” and of “butter” which will do most to advance our security and well-being in the long run.

While too slow a defense build-up would imperil the Nation, too rapid a build-up also has dangers. It 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.

If the build-up of our industrial capacity were too slow, the very foundation of our economic and military strength would be impaired. But if our industrial build-up were too fast or were made indiscriminately, it

CHART 2

GROWTH IN BASIC CAPACITY AND PRODUCTION

¹/ EXCLUDES INDUSTRIAL.²/ PROJECTIONS BY DEFENSE PRODUCTION ADMINISTRATION.

SOURCES: AMERICAN IRON AND STEEL INSTITUTE, FEDERAL POWER COMMISSION, AND DEPARTMENT OF INTERIOR (EXCEPT AS NOTED).

could feed an inflationary boom by placing too heavy a demand upon scarce materials.

If we maintained civilian consumption at too lush a level under current world conditions, we would be deceiving ourselves tragically. But excessive cutbacks of civilian supplies and essential public services would weaken the ultimate source of our collective strength—155 million Americans.

The defense mobilization effort thus far has been based upon this rounded concept of total national strength for the long pull. Since the Korean outbreak, the size of our armed forces has more than doubled. Deliveries of military goods, including military construction, have totaled 20 billion dollars. Nearly 5½ million workers are now engaged directly or indirectly in defense production. Government outlays for the major national security programs—the military services, atomic energy, stockpiling, military and economic aid abroad, Defense Production Act programs,

civil defense, and merchant marine activities—have increased from an annual rate of 17 billion dollars to about 45 billion.

While increasing these major security programs, we have also been rapidly building up our productive economic strength. Since the Korean outbreak, private investment in producers' equipment and nonresidential construction has averaged 37 billion dollars a year, compared with a 32-billion-dollar rate from 1947 through the middle of 1950, 14 billion in 1939, and 22 billion in 1929, all measured at the 1951 price level. In 1951, steel-making capacity increased 4 percent and electric power capacity 10 percent, and the year's steel output of 105 million tons exceeded the previous record by 9 percent. Aluminum output at present is running 17 percent higher than during the middle of 1950. (See chart 2.) Additions to farm equipment and larger use of fertilizers have made it possible to set a realistic 1952 agricultural production goal above any previous year's output, and almost 50 percent higher than the Nation's average farm production in the years before World War II.

This growth in the productive sector of our economy indicates that neither the size of the military build-up, nor the high level of taxation enacted to finance that build-up, has repressed business investment initiative. Instead, the problem has been to hold the expansion down to non-inflationary proportions.

Despite the great demand for resources to enlarge the military build-up and to expand the industrial mobilization base, the year and a half since Korea has witnessed an extremely high level of general civilian supplies. While per capita consumption in constant dollars declined about 3 percent from the pre-Korean level to the final quarter of 1951, this was mainly because of a fall in demand for durable goods. Considering the increase in consumers' stocks of durable goods since the end of the war, and the steady improvement in housing accommodations, it seems clear that living standards have thus far been rising. Compared with 1939, per capita consumption expenditures, after adjustment for price rises, have increased about one-third. (See chart 3.)

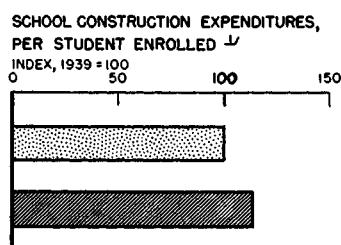
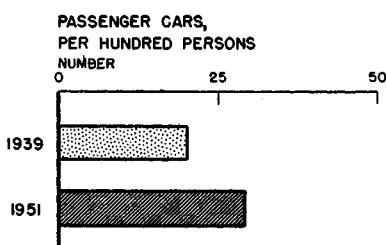
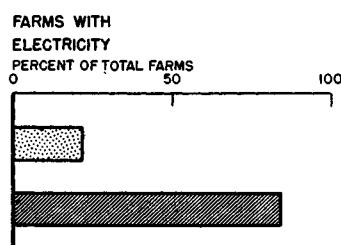
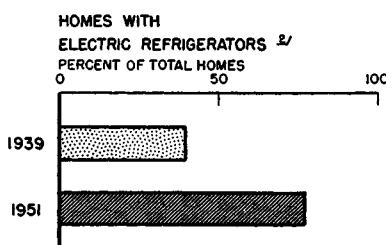
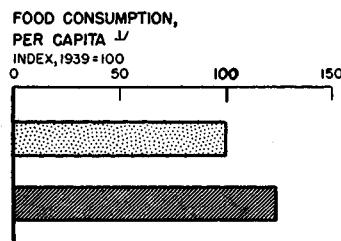
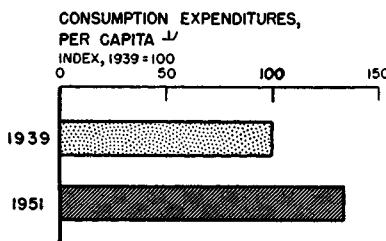
There have been some shortcomings to set off against these evidences of progress. Bottlenecks and shortages, and problems of design, have delayed production of some important military items. Some of the materials expansion programs have not moved forward as rapidly as we had anticipated. As was to be expected in the first stages of a mobilization effort, the development of smoothly operating administrative machinery took time to accomplish. In some areas of the country, although not generally, dislocations have resulted in unemployment and business hardship. Furthermore, particularly during the first months after the Korean aggression, a rapid inflationary upsurge caused undue hardship to many families.

Nonetheless, the facts which have been recited make it clear that the Nation has been gaining steadily and vigorously in economic strength.

CHART 3

GAINS IN LIVING STANDARDS

By almost any measure, the standard of living has improved markedly since the pre-World War II period.



^{1/} INDEXES BASED ON EXPENDITURES IN 1951 PRICES. SCHOOL CONSTRUCTION EXPENDITURES FOR 1939 INCLUDE WORKS PROGRESS ADMINISTRATION PROJECTS, AND ARE ADJUSTED FOR PROBABLE LOWER PRODUCTIVITY.

^{2/} END OF YEAR DATA.

SOURCES: DEPARTMENT OF COMMERCE, McGRAW - HILL PUBLISHING COMPANY, DEPARTMENT OF AGRICULTURE, FEDERAL SECURITY AGENCY, AND COUNCIL OF ECONOMIC ADVISERS.

Moreover, the utilization of our resources, under the mobilization program, has kept the three major components of our strength in reasonably balanced proportion.

But the defense program is still in the build-up stage; the main effort lies ahead. This will impose new strains upon the economy. It calls for improvement in existing programs, and new adjustments to meet new events.

The Harder Job Ahead

As 1952 opens, we face a period during which the burden of the defense program will increase greatly—both in absolute terms, and relative to the total size and strength of the economy. This increasing burden, while indispensable to our security, will place an additional strain upon our manpower, our physical plant, our natural resources, and our standards of living. It will inescapably cause Government expenditures to rise greatly, and, even with the additional taxes I am recommending, it is estimated that there will be a large deficit this year and a larger one next year. This deficit, along with the other strains upon the economy, will increase inflationary dangers. We must analyze these strains carefully, and decide how best to meet them. With sound policies, there is no doubt that we shall be able to meet them.

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. These over-all figures do not fully portray the impact. In 1952, more than a third of the output of the construction and metalworking industries will be taken for military purposes. Military production and construction will claim more than a fourth of our copper supply, and half of our aluminum supply.

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.

But the most difficult problems will be within the next 12 months. After we cross this hurdle, continued expansion of our raw materials base, and slackening of military requirements for materials, will considerably ease the strain. In the meantime, however, it will be necessary to curtail the use of critical materials for many peacetime products. Serious problems will be faced by some smaller manufacturing firms, unable to convert their plants to defense production or to find substitute materials.

I want to direct special attention to that part of our security effort which is aimed at increasing the strength of other free nations. Most of our aid is going to Western Europe. During the 2 years of the Marshall Plan

prior to the Korean outbreak, industrial production in Western European countries rose 30 percent. Nevertheless, their recovery was far from complete when they had to undertake heavy new defense burdens. Since June 1950, they have added substantially to their armed forces and have more than doubled their defense expenditures. While their industrial production has risen another 15 percent during this period, it still is far below the level required for defense and for economic stability.

The Western European countries can shoulder only part of their heavier defense outlays through increased productivity. In addition, cuts must be made in their domestic consumption, which only recently has been restored to the prewar levels, and in capital investment, which is needed to build long-run economic strength. Exports, which are necessary if self-support is to be achieved, are also being limited. If these countries tried to produce or buy abroad, solely with their own resources, all the goods needed for defense, the probable result would be drastic cuts in living standards, intolerable inflation, and grave danger to political stability.

It is only a matter of intelligent self-interest on our part to add something to the resources of these countries. And it is essential for us to understand that, whether we make this addition in the form of "military aid" or "economic aid," the objective and the function are the same: common security. When we supply military goods, some of the most dangerous cutbacks in European civilian production can be avoided. When we supply economic assistance, some European productive facilities and foreign exchange are released for defense. The form of aid that best serves the purpose in a particular case is not something which can be decided in the abstract. It depends upon the changing circumstances in the individual European countries.

We are also providing aid to the nations in the Near East and Africa, in Asia and the Pacific, and to the other American Republics. Much of it is military aid. A somewhat lesser amount—but one which has been steadily increasing—is being directed to attacking the more general problems resulting from underdevelopment. Chronic poverty now affects the ability of some of these countries to maintain independence in the face of threatened aggression or subversion. This calls for a demonstration—by positive and sustained action by the free nations as a whole—that the economic aspirations of underdeveloped countries can best be realized in association with the rest of the free world.

Our reliance on other nations of the free world is not simply a matter of combined military strength. Our productive potential is vitally dependent on supplies of critical raw materials—particularly metals—coming from abroad. We are joining with the other free countries in efforts to encourage the production and achieve a fair distribution of such materials.

In addition, we must undertake in 1952 some other efforts which will make us stronger for the long pull, even though they will increase immediate

strains. 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.

There are also a few public programs which must be continued at fairly high levels or expanded, because they are essential to supply our defense requirements and to expand our mobilization base. Federal expenditures for long-range conservation and development of natural resources must be adequate to assure maintenance of the resource base, and to prevent the gradual deterioration of this fundamental segment of our economy. Programs for conservation and development of minerals are being enlarged. Public electric power projects, which will make up about a fourth of the 30-million-kilowatt total expansion programmed for completion in the next 3 years, are going forward. Many of these public developments are multi-purpose hydroelectric projects, which also yield other important benefits. Initial development of certain hydro projects, which will be required in 4 or more years, must also go forward now.

These various types of defense-related expansion—both military and civilian—will absorb scarce resources, such as steel and copper, at a much faster rate than we can expand the supply during the next 12 months or so.

The meaning of this is simple: In order to accomplish what we cannot afford to do without, we must give up many of the things that we can afford to do without. It is even more true of 1952 than of 1951 that we cannot have business as usual, consumer enjoyments as usual, or Government programs and services as usual.

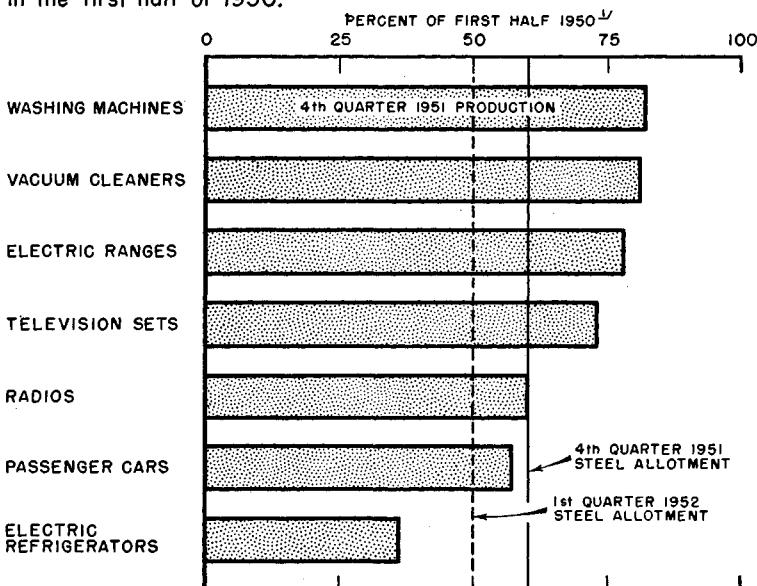
The demand for vital business expansion means that many nonessential forms of private investment must be deferred. The total of private investment in construction and producers' equipment, which was close to 50 billion dollars in 1951, should be held in the neighborhood of 42 to 44 billion dollars in 1952. This will cause some hardships and dislocations, although we are doing our best to minimize them. But measured against earlier years, the general level of private investment, even outside of the industrial mobilization base, will be relatively high and profitable. The holding back of some less essential investment will be helpful immediately by reducing inflationary pressures; and helpful in the long run by creating backloggs of opportunity for investment when the security program levels off.

The American consumer—which means all Americans—will also have to relinquish some of the enjoyments which would be possible if the cost

CHART 4

PRODUCTION OF CONSUMER DURABLE GOODS CONTRASTED WITH FIRST HALF OF 1950

Fourth quarter 1951 production of major consumer durable goods was sharply below the first half of 1950. For the first quarter of 1952, the allocations of steel are only 50 percent of usage in the first half of 1950.



^{1/} BASE PERIOD FOR CALCULATION OF STEEL ALLOTMENT.

NOTE: PRODUCTION DATA BASED ON DAILY AVERAGES. BASE PERIOD OUTPUT FOR PASSENGER CARS DIFFERS FROM REPORTED OUTPUT DUE TO ADJUSTMENTS FOR WORK STOPPAGE.

SOURCES: VARIOUS TRADE ASSOCIATIONS AND NATIONAL PRODUCTION AUTHORITY.

of security were not so high. The over-all level of consumer supplies, particularly food and clothing, should remain at least as high as last year. Such items as food and clothing do not compete sharply with the defense program or with the industrial build-up. But housing starts, which were 1.4 million in 1950 and about 1.1 million in 1951, will have to be reduced to 850,000 units or less. And to reach even this number will require substantial economies in the use of scarce materials. Less than 4 million new passenger cars will be made, compared with 5.3 million last year. Household appliances, radios, and television sets must also be cut back from recent levels. (See chart 4.) Current production of most metal-using durables will be below the level of the 1947-49 period. But, with very high existing stocks of these durables in the hands of consumers, supplies will be ample to meet all essential needs.

During a national emergency, when business and consumers are being called upon for larger sacrifices, we cannot expect to have normal peacetime Government services. This presents a difficult problem, because world conditions since 1940 have required us to hold many types of outlays below the needs of an expanding economy and a growing population. For example, measured in uniform prices, construction expenditures for both highways and natural resources, excluding atomic energy, were considerably larger in 1939 than in any year since. New public construction expenditures for these and other development programs, including education, health, and housing, have fallen from about 3 percent of the gross national product in 1939 to less than 2 percent in 1951. After World War II, the American people properly looked to their Federal, State, and local governments to resume certain programs and services devoted to their well-being. We were able to make substantial progress for some time, but in the present defense emergency we have necessarily had to cut down again on many government programs.

We must continue to hold back on the construction of hospitals. Total construction expenditures for schools, although at record levels, must be held below the real need. New natural resource development projects, including flood control, navigation, and reclamation projects, are being postponed unless they are essential because of electric power or other urgently needed features. Low rent public housing starts in 1952, as in 1951, will be well below the levels contemplated in recent housing legislation.

The postponement of these programs is unfortunate. But like deferred business investment, it may have some good effects later on. When the defense program levels off, the resumption of these programs can help to take up any slack.

The year ahead, and 1953 also, will pose more difficult problems in the management of the fiscal affairs of the Federal Government than any we have faced since World War II. 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 dollars. 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. The remainder reflects persistent efforts to bring other outlays to the lowest point consistent with recognition that a nation of 155 million people cannot survive through armament alone.

For the fiscal year 1952, the total of Federal expenditures is estimated at approximately 71 billion dollars, 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. In this period, substantial problems will also arise in connection with the management of the national debt, and the financing and refinancing operations of the Treasury.

Rising expenditures and rising deficits add to inflationary pressures. The expansion of defense production will cause the spendable incomes of consumers to rise during the year more than civilian supplies. Moreover, price and wage movements, responsive to the decisions of business and labor, could add fuel to the inflationary fires. Ample funds will be available to most businessmen to engage in excessive inventory buying, if they should desire to do so. There are large reserves of liquid savings in the hands of consumers and business.

Looking at the situation as a whole, however, the essential security program neither imposes excessive strains upon the economy, nor makes it impossible to contain inflation. If we realize, as fully as possible, our productive potential, business investment and real consumption, while curtailed, will still be high, except when measured against the last 2 years—the highest in our history. Certainly these are not large sacrifices, in view of the dangers against which we must protect ourselves. Further, if the people as a whole are willing to avoid excesses and extravagances, the recent containment of inflation can be made more effective during this year. We contained inflation, under more difficult circumstances, during World War II, although we did not do a good enough job of forestalling postwar inflation. We must learn from past mistakes as well as from past successes.

The Real Meaning of Economy

True economy is desirable at all times. It is imperative during a national emergency. But, as shown by the foregoing review of events since 1947, true economy means conserving and expanding the economic strength of the Nation as a whole. It can, therefore, be achieved only by recognizing all the basic factors in that strength—and not neglecting any of them.

When we look at the whole picture, we find that true economy embraces two equally important elements: The first is the avoidance of unnecessary outlays; but the second, and equally important, is the making of necessary outlays. A nation which spent its resources foolishly would dissipate its strength. But a nation which was too timid or miserly in applying its resources to urgent needs would fail to build up its strength.

We must exert every effort—through business action, consumer action, and government action—to avoid unnecessary outlays. But we cannot by this method alone achieve world peace or a highly productive economy.

The main reason for not spending on the things that we do not need, is to afford the things that we do need.

We must hold defense outlays to the lowest levels consistent with safeguarding our national security. This means constant weeding out of waste. But it would be false economy to cut the defense program below the requirements for our safety.

Our economic and military aid to free nations banded with us against aggression must be kept under vigilant and continuous review. It must be coupled with assurance that the countries receiving it are doing their full share. But it would be false economy, after all our efforts since World War II to help rebuild economic life and maintain political stability in war-damaged countries, to reverse the process by weakening the aid program. We must recognize that strength or weakness at any point in the free world adds to strength or weakness at every point. It would not be true economy to spend a dollar for the common defense on one side of the Atlantic, when it would contribute more to the common defense if spent on the other side of the Atlantic.

There has recently been growing appreciation in the United States that the defense programs of the countries of Western Europe should not move so fast as to reduce standards of living below a level consistent with political stability and immunity against internal subversion. Some adjustments are now being made to take account of this fact. But it would not be true economy, because some partners in a joint enterprise have not the resources to do all that would be desirable, for the strongest partner to relax from doing its best.

If our own security efforts, through their demand upon raw materials and their effect upon world prices, are imposing an excessive burden upon other nations, there are right and wrong ways to meet this problem. We are lessening the pressures upon prices and raw materials, not by relaxing our security program, but rather by cutting somewhat into nonessential consumption and investment; by holding down domestic inflation through an effective anti-inflationary program; and by making cooperative efforts to share scarce materials and to stabilize international prices. This is the right approach. The proposal to solve the whole problem by drastically cutting the security effort everywhere is false economy—because the nub of the problem is to maintain a mutual security program which in total is adequate to the danger confronting us. It would be superficially easy—but disastrous—to reduce the defense strain by torpedoing the defense program.

We must cut nonessential spending, both private and public, so that unnecessary shortages and unnecessary inflation do not imperil the defense effort. But it would be false economy to repress the types of private and public investment which are building up our essential productive power.

It would be false economy to set revenues at a far lower level than the Nation can well support under current circumstances, and then to say

that the defense garment must be cut to the revenue cloth. A balanced budget, achieved the easy way by sacrificing the defense program and putting the balance of world power in the hands of the Kremlin, would be false economy. The sound course in these times is to base outlays upon essential national needs, and then obtain the funds to cover these needs by current taxation insofar as possible. But if the only choice is either to run a deficit of limited size and duration in the Federal budget, or to run a deficit in our national security effort, by far the lesser hazard now is to run a deficit in the budget.

There is also a superficially easy way, and a genuinely sound way, to combat inflation. The superficially easy way would be to avoid inflation by reducing the security program below safe levels. The sound way is to achieve and maintain a strong and vigorous anti-inflationary program.

Top Issues for Policy Action

Policies to promote the success of the security program, and to ease the burden upon the economy, were recommended to the Congress in 1950 and 1951, and, with some important omissions, were adopted. We must apply these policies with maximum effectiveness. To do this, some legislative changes and additions are now desirable.

Reaching our objectives for defense strength

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. Meeting these production schedules will require for at least two more years the authority under the Defense Production Act for those controls which promptly channel scarce materials and tools into defense production. I urge the Congress to adhere to the sound policy it followed, in the original act, of not encumbering it with detailed prescriptions concerning how materials should be distributed. The administering agencies need to exercise flexibility and discretion, based upon up-to-the-minute study, in order to avoid or remedy hardships upon business and workers whenever this can be done without hurting the defense program.

Under the present law, we are administering a system of priorities and allocations to channel scarce materials into the most essential uses. Stock-piles of strategic materials are being built up. While shortages of materials are bound to cause many inconveniences and some hardships, the Controlled Materials Plan operates to reduce these, and to promote the more important types of production while reducing the less important.

The great expansion of productive facilities for defense makes it essential that there be the widest possible distribution of defense business, with particular emphasis upon maintenance of free competitive enterprise.

The Government has for a long time, particularly through the leadership of the Department of Commerce, assisted small business in playing its significant role in the economy. The Reconstruction Finance Corporation has also been engaged in this effort. These services have now been adapted to the defense effort. In addition, the Department of Defense and the mobilization agencies have in a variety of ways promoted the placement of contracts wherever feasible with small businesses. This is important not only to obtain a faster build-up of defense output, but also to avoid unnecessary unemployment and distress, and to help preserve the competitive vigor of our economy. The Small Defense Plants Administration has recently been established to coordinate Government policies and programs in behalf of small business, and to expand the role of small plants in defense and essential civilian production. This part of the Government's economic program is one of great urgency. It is most important that the Congress make available the necessary funds for the Small Defense Plants Administration.

Aiding other free nations

We must maintain a realistic attitude toward foreign aid. Mindful of the limitations of our own economy, we must also be mindful that some other countries are confronted by economic and political strains far more serious than ours. In the final analysis, the free world must be made more secure if we are to be secure.

Our foreign policy objectives require continued provision of both military and economic aid to free nations. Both types of aid are necessary. Our North Atlantic Treaty partners, in particular, are undertaking heavier burdens, whether they rebuild their defenses by buying military equipment from other countries, or by cutting civilian production to produce military goods themselves.

These countries are making great efforts to shoulder these burdens through their own productive efforts. This requires, among other things, that they have outlets for some of the goods which they can produce and want to exchange for other goods which they need to import. In this connection, I again recommend the repeal of Section 104 of the Defense Production Act, which restricts our imports of certain goods which the European and other countries have available for export to us on mutually advantageous terms.

It is necessary to encourage the efforts which underdeveloped countries are making to further their own economic development, and to support these efforts by providing as much technical and economic assistance as we can afford and as they can effectively use for that purpose.

We shall continue to share scarce capital goods by providing priority and other supply assistance for the export of such goods for essential purposes abroad. We shall also continue to participate actively in international ar-

rangements to encourage production and equitable distribution of scarce raw materials in the free world. Such measures help to expand the supply of goods and to restrain dangerous inflationary forces.

Expanding our productive capacity

Building up our productive capacity is a many-sided operation. The mainspring of this expansion is private initiative and investment. But the Government has had to exercise important responsibilities. It has had to program and guide expansions in various key industries. This has been effected by materials allocations, and by selective aids and inducements such as tax amortization, loans, loan guarantees, and purchase agreements. The authority provided by the Defense Production Act and related legislation to use these aids to expand production has been very valuable, and will continue to be necessary.

A number of public programs play an important role in expanding the total productive capacity of the economy. Roads, other transport facilities, public power developments, and pilot plant research in metals and fuels, are illustrations. The Government is equipping and building certain facilities for the production of war matériel, and is carrying out a large atomic energy program. To support needed expansion of production, certain urgently needed development projects, particularly the St. Lawrence seaway and power project, should be started now.

The report of the Materials Policy Commission, which I appointed a year ago, will be finished shortly, and should provide long-range policy guides for increasing and improving supplies of raw materials.

In general, the labor force thus far has proved adequate to meet the needs of increased production and a growing military establishment. But in certain categories of skill, and in certain industrial and farm areas, shortages exist. Appropriate measures are being taken to encourage training, recruitment, and the movement of workers when necessary, and to promote efficient use of the labor supply by employers. Manpower problems will probably grow more difficult, as defense production approaches its maximum level. A serious need has already appeared for additional housing and community facilities and services in defense areas.

While there are labor shortages in some areas, there are other areas where localized but serious unemployment exists, particularly in centers of automobile production. Strong efforts are being made to find ways of reducing this unemployment, including the placing of defense contracts in labor surplus areas.

Experience has proved that our basic labor-management statute hampers the maintenance of the sound and healthy labor relations and the uninterrupted production which are so essential to a sustained mobilization effort. The law should be promptly revised to accord the fair treatment to both labor and management which is vital to industrial harmony and steady production.

Farmers are now being asked to produce more than ever before. The "sliding scale" in existing price support legislation has aroused concern in the minds of many farmers, who fear that their cooperation in expanding production to meet the present emergency might later result in serious losses to them. The Government's price support operations obviously should further attainment of production objectives, and they should not penalize producers for their full and patriotic cooperation with the agricultural program. I therefore recommend that the sliding scale provisions of the present agricultural legislation be repealed for this purpose.

We need to strengthen the agricultural program by finding a more effective way of supporting the price of perishable farm commodities. One method is by direct payments to farmers. This and other methods are now being studied by the Congress. I hope that the Congress will provide legislation authorizing a sound and workable program for supporting prices of these perishables.

Price supports in this emergency period must, of course, continue to be administered in a manner which achieves a proper balance between the goals of adequate production and of economic stabilization. The Secretary of Agriculture and the Director of Price Stabilization will continue to work together toward this end.

In addition, I recommend that the Congress enact legislation to make clear the Government's policy of encouraging the organization and sound growth of cooperatives. The tax bill which was passed last year included a tax on the unallocated reserves of farmer cooperatives. This should be modified in such a way that newly-organized cooperatives will not be subject to it, until they have had a limited period of years in which to establish themselves. Farmers are marketing their products and purchasing their supplies through more than 10,000 cooperatives, with an estimated membership of more than 6½ million. Their organization in this form of business has had a healthy effect on the rural economy, and it is especially important to encourage this form of self-help when farmers are being asked to do a record job of production.

Supporting civilian strength

Faced with the necessity of maintaining a large national security program for an indefinitely long period, we should not lose sight of the importance of human productiveness and morale. These depend upon adequate supplies of food, shelter, and clothing, and adequate education, health services, and social security. However, for the next year or so, while the defense program is placing such heavy demands upon materials and the labor force, we must recognize that only limited progress can be made in this direction. Some increase in food and clothing can be achieved without adding to the demand for scarce materials. On the other hand, many types of civilian metal-using output will have to be curtailed further, because of competing higher priority uses for certain metals, notably copper and steel. While

housing also must be curtailed, a sufficient quantity should be built this year to take care of the most essential needs.

In education, health, and social security programs, we must continue to be highly selective, deferring improvements and extensions not clearly necessary now in support of the total defense effort. Education of children, however, cannot be postponed, nor should health standards be allowed to fall. I recommend a program of general Federal aid to help meet teaching and other school operating costs, and a more adequate program of Federal aid for school construction and operation in critical defense areas.

To meet urgent needs in the health field, programs for Federal aid to medical education and the strengthening of local public health services should be enacted promptly. I have recently appointed a Commission on the Health Needs of the Nation, composed of professional and lay persons, which will make an objective study of vital health problems, including the provision of adequate health care to all our people at prices they can afford to pay.

Certain extensions and changes in the old-age and survivors insurance program, in line with longer-range objectives, would, if undertaken promptly, yield the additional advantage of helping those groups who have been hit hardest by past inflation. Raising the level of benefit payments is especially desirable, and other improvements should include raising the taxable wage base, extending the coverage to farmers and certain other groups, and providing for permanent and total disability.

To provide more adequate protection against unemployment, I recommend the enactment of legislation to strengthen the present Federal-State unemployment insurance system, along the lines suggested in my message to the Congress on April 6, 1950. Legislation for this purpose is now pending before the Congress, providing specifically for extension of coverage to additional workers, establishment of nation-wide minimum levels for amounts and duration of unemployment benefits, establishment of adequate methods to assure payment of benefits to workers who move from one State to another, and improvements in administration of the system.

Controlling inflation

In determining the national economic policies necessary to maintain stability in the economy in the coming year, the basic fact to take into consideration is that the progress of the security program will involve a steady increase in the requirements of the Government for goods and services. The increase will bring Government demand at the end of the year to a level 20 billion dollars higher than the current annual rate of Government purchases for this purpose, and will entail a corresponding increase in the amount of labor, materials, and other productive resources diverted from the civilian economy to the security program. At the same time, the security program will place large additional buying power in the hands of businessmen and consumers.

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.

This is a precarious situation, and any day some combination of events could cause consumers to reverse the prudent attitude of recent months. It is essential that we maintain and perfect the policies which will effectively curb such an inflationary outburst.

The effective policies open to us for use if private demand begins again to expand rapidly are those which enlarge output, those which limit the size of demand itself, and those which prevent surging demand from causing price increases. Since consumer output cannot be increased very much because labor and materials must be diverted to defense-related production, primary reliance must be upon those measures which limit demand or restrain its effect upon prices. Taxation, by a very direct process, reduces disposable income. An increase in voluntary saving reduces spending. Restrictive credit policy limits the expansion of business and consumer

buying. Allocation and limitation orders prevent businessmen from piling up inventories again, and from stepping up their investment plans in an effort to exploit the larger markets they envisage when there is a great market boom. Price and wage controls are directed both to restraining income increases, and to holding the price line against unavoidable increases in demand.

Requirements for additional taxation. Adequate taxation is essential, both to assure a sound fiscal position and to maintain economic stability. If the added Government spending for the defense program is not to lead to price inflation, private spending by consumers and business must be held in check. Taxation pays for the Government spending, and at the same time reduces funds available for private spending.

Three major tax laws have been enacted during the past 18 months. They have increased the annual yield of the Federal tax system by about 15 billion dollars, or approximately by one-third. This is a good record. But it falls short of the amount of additional revenue needed.

Early last year, I asked for a minimum tax program to yield 10 billion dollars or more. The bill enacted by the Congress came late in the calendar year, added only about one-half of this amount, and included a number of provisions which lost the Government revenue and reduced the equity of the tax system. A budget deficit of about 8 billion dollars 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.

In view of this fiscal outlook, 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.

With the tax system strengthened as I recommend, there should be sufficient revenue, under the security program now planned, to cover fully the Government's expenditures after the peak of the defense build-up has been passed, and defense expenditures have been adjusted downward. It is important that we return, as quickly as possible during the period of defense mobilization, to a current pay-as-we-go basis for Government financing.

Saving. If we are to hold down private spending to the level of available supply, while the national security programs are expanding, it is necessary

also to promote a high level of saving. Dollars of income which are not spent by consumers or businesses do not add to inflationary demand.

During most of 1951, personal saving was at an unusually high rate. Relatively stable prices encouraged increased saving, and increased saving helped to stabilize prices. We must continue to maintain conditions which will favor both saving and stable prices.

Increasing the investment of private savings in Government securities will reduce the need for the Government to borrow from banks for the purpose of refunding maturing security issues and financing deficits. Buying United States savings bonds and other Government securities is a good method of saving, and it is also a good method of supplying the Government's borrowing requirements in a noninflationary manner. Holders of maturing Series E savings bonds now have the privilege of maintaining their investment in these bonds for another 10 years, during which the bonds will continue to earn interest at the same over-all rate. The efforts of the Treasury and other Government agencies will continue to be directed toward encouraging individuals to buy and hold savings bonds and other Government securities.

Credit control. Since private borrowing can augment the spending power of individuals and businesses, and thus add funds to the aggregate spending stream, credit control is also being used to help stabilize the economy. This type of control cannot be used indiscriminately, since credit plays a vital role in the functioning and growth of the economy, especially now when rapid expansion in certain vital sectors of the economy is necessary.

Periodic reviews are being made, at my request, of the policies of the Government lending agencies, to make certain that they promote the objectives of the defense effort by restraining less essential lending. The Voluntary Credit Restraint Program, which operates under the sponsorship of the Board of Governors of the Federal Reserve System, continues to be helpful in discouraging loans for less essential purposes, although continuous care needs to be exercised not to discourage activities important for a strong defense economy.

Selective credit controls are particularly useful under current conditions, because they reduce borrowing and spending for some of the less necessary kinds of goods, particularly those which compete for scarce materials. The Board of Governors of the Federal Reserve System is using its powers under the Defense Production Act to limit borrowing for the purchase of durable consumers' goods and new housing. The Congress last year reduced the authority to control these forms of credit. I recommend restoration of full administrative discretion in setting these credit terms.

During the months ahead, we may face considerable pressure for excessive expansion of bank credit. I repeat my earlier recommendations that the powers of the Board of Governors of the Federal Reserve System to impose reserve requirements be enlarged.

A related problem is control of margins for trading on commodity ex-

changes. The Congress has not acted upon the recommendation that the Secretary of Agriculture be authorized to regulate margins, in order to head off excessive speculative trading on the commodity exchanges. Fortunately, we have had no runaway commodity markets recently, but it is desirable to grant this authority in advance of any such situation.

Price control. The relative stability of prices during most of 1951 was encouraging. But this does not mean that we can now afford to relax price controls. In many important areas, prices are straining at the ceilings. In others, softness exists which cannot be counted on to persist for long. Greater pressures loom ahead. At this stage of the mobilization program, it is more prudent to strengthen controls than to weaken them.

We must continue the effort to hold the price line. Prices and profits are, in general, high enough to provide ample incentives to producers, and to permit considerable absorption of cost increases. The Office of Price Stabilization has made great progress during the past year toward a balanced price structure which can be held firmly. It is developing simple, enforceable regulations to cover individual industries and commodities.

But if we are to hold the price line, adequate legislative authority must be granted. When the Defense Production Act was renewed last summer, the power to control prices, instead of being strengthened, was seriously weakened.

One weakening amendment permits any producer or seller of services, regardless of his need, to pass on all increases in all costs incurred from the first half of 1950 to July 26, 1951.

Another weakening amendment requires the maintenance of customary percentage margins for distributors, thus virtually guaranteeing that every dollar in cost increase will become much more than a dollar in the price paid by the consumer.

Still another weakening amendment forbids the establishment of slaughtering quotas. Slaughtering quotas were a strong bulwark of the beef ceilings by providing a fair distribution of the available supply of cattle among slaughterers and areas, thus helping to avoid black markets in meat. Last fall, this amendment upset the distribution pattern, forced very high cattle prices, and endangered the continuance of the beef ceilings. Temporarily, the situation has improved, but we cannot afford to take another chance.

To achieve our stabilization objectives, these defects in price control legislation should be corrected and the law should be strengthened when it is extended. We cannot afford to gamble further with inflation.

Rent control. Although rent controls cover only a part of the total rental housing in the country, they are of great importance in stabilizing rents in many major industrial areas, and should be continued. Vigorous use is being made of the authority provided last July by the Congress to reinstitute rent controls, where necessary, in critical defense housing areas, including areas around military posts. Thus far, full rent control has been, or is about

to be, reimposed in 96 of these areas, and will be reimposed in other areas as needed.

Wage stabilization. Wage stabilization, like price control, cuts the inflationary spiral and limits the rise of prices and costs, and should be continued. It also helps to prevent buying power from rising too far above the available supply of civilian goods. The policies of the Wage Stabilization Board are designed to put a brake upon excessive wage adjustments, while at the same time recognizing that some adjustments in a free and dynamic economy are essential from the viewpoint both of equity and of incentives. Adjustments to take account of increases in the cost of living are a matter of simple equity, because price inflation is not a fair way to impose the burden of national defense. The fair way to impose the burden of national defense is by taxation and other restraints which can be equitably imposed. Wage adjustments to allow for increases in productivity, if carefully limited and firmly administered, can provide incentives which outweigh any possible inflationary effect. There are a few other specialized problems with which the Wage Stabilization Board must deal.

To avoid inflation, we must maintain a firm price policy and a firm wage policy throughout the peak of the defense effort, and we must maintain a fair relationship between the two.

Equality of sacrifice

Where sacrifices are necessary—and many are—they must be equitably imposed, so as not to inflict public hardship in order to support private gain. That is a main purpose of a strong anti-inflation program. Special attention is also being directed toward the problems of small business and those who are unemployed in local areas, so that a limited segment of the population shall not be made to bear an excessive part of the burden of national defense.

The year 1952 is not going to be an easy year for the economy. It is going to be a year of strain. We must expect this, and prepare to bear some inconveniences and hardships. For most of us, the hardships will be minor. There will be plenty of food and other essential commodities, and the highest civilian employment in our history. As the economy becomes adjusted to the new conditions and grows in size, and especially when defense expenditures decline, we may confidently look forward to the relaxation and removal of many kinds of controls and restrictions. In the meantime, all of us must join in the vast effort to safeguard our national security.

Summary of Legislative Recommendations

I summarize below the legislative recommendations contained in this Economic Report, to promote the defense effort, strengthen the economy, and maintain economic stability.

1. Renew the Defense Production Act for two more years, and strengthen its provisions, particularly those relating to production expansion and to the control of prices and credit.
2. 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.
3. Aid small business by providing the necessary funds for the Small Defense Plants Administration.
4. Provide for certain urgently needed development projects, particularly the St. Lawrence seaway and power project.
5. Provide for the construction of needed housing and community facilities in defense areas.
6. Revise the basic legislation concerning labor-management relations, so that it will not hamper sound and healthy labor relations and uninterrupted production.
7. 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 farmer cooperatives.
8. 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.
9. 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.
10. 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.
11. Authorize Federal aid to help meet school operating costs, and increase aid for school construction and operation in critical defense areas.
12. Authorize Federal aid to assist medical education, and provide for strengthening local public health services.

Summary of Economic Developments in 1951

Government outlays for national security programs almost doubled during 1951. In the fourth quarter, these outlays were running at an annual rate of 45 billion dollars, compared with 24 billion a year earlier. They represented 14 percent of the total output of goods and services, compared with 8 percent at the end of 1950. The impact was much greater in some

industries. Currently, more than a quarter of the output of the metal-working and construction industries is being taken for defense.

Production of goods and services (gross national product in 1951 prices) was about 327 billion dollars in 1951, or 8 percent higher than the 1950 output of about 300 billion dollars. (See chart 5.) In the fourth quarter of 1951, total production reached an annual rate of about 330 billion dollars, a gain of 5 percent over total output in the fourth quarter of 1950. The bulk of the increase took place during the first half of 1951; in the second half, total output was practically stable.

Industrial production fluctuated within a narrow range through most of 1951. In December, it was at the same level as a year earlier, and 22 percent higher than in December 1949. Defense and defense-supporting activities continued to increase. The output of consumer goods declined, because of materials cutbacks and sagging demand.

Agricultural production, despite adverse weather developments in the fall, was near the previous record year. Average civilian food consumption was slightly above the pre-Korean level, while we met the food requirements of an expanded military force.

Employment of civilians at the end of 1951 was 61 million, the same as the average level for the year. This was about 1 million higher than in 1950, although the civilian labor force was 200,000 less because of the rapid increase in the armed forces.

Nonagricultural employment averaged 54 million, and was 1½ million higher than in 1950. The largest increases were in the industries associated directly or indirectly with defense production, which now engage 5½ million persons, compared with 2 million at the outbreak of hostilities in Korea.

Agricultural employment continued its long-run decline, amounting in 1951 to about 7 million, or 450,000 less than in 1950.

The workweek, which had averaged more than 41 hours in manufacturing industries in the last half of 1950, dropped slightly during the first half of 1951, and averaged almost 40½ hours during the second half. The workweek expanded in defense industries, while it declined somewhat in the consumer goods industries.

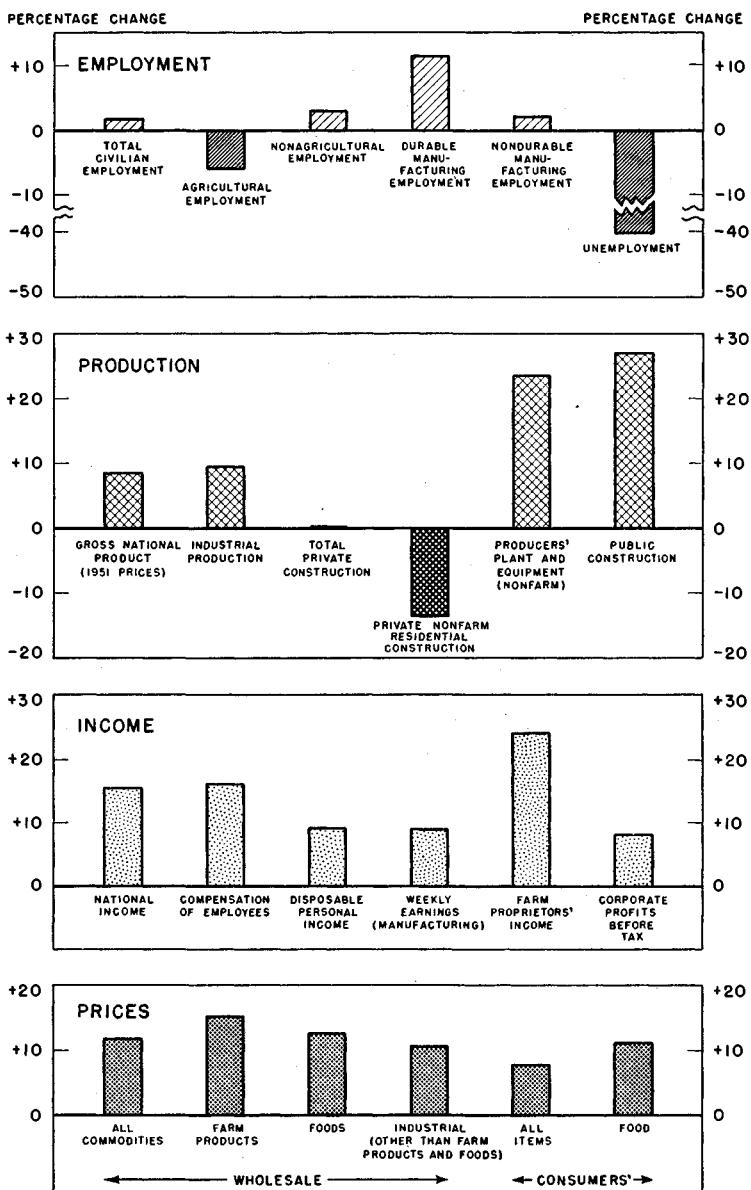
Unemployment decreased from 2.2 million persons, or 3.6 percent of the civilian labor force, at the end of 1950, to 1.7 million, or about 2.7 percent, at the close of 1951. However, the impact of materials shortages and sagging demand for textiles and other consumer goods has increased unemployment in a number of areas.

Work stoppages resulted in less loss of man-days of labor than in any comparable postwar period. Less than one-fourth of 1 percent of total working time was lost by strikes.

Prices were relatively stable during most of 1951, in sharp contrast to the violent waves of general price increases which marked the second half of

CHART 5

ECONOMIC INDICATORS CHANGES FROM 1950 TO 1951



SOURCE: APPENDIX B.

1950, and which were quieted after the imposition of the general price and wage freeze late in January.

Wholesale prices, which had advanced almost 17 percent between the outbreak of the Korean aggression and the general freeze, then declined 3 percent by the end of the year. The drops took place mainly in some farm commodities, textiles, hides and leather, and fats and oils.

Consumers' prices, which had risen 8 percent from the Korean aggression to the imposition of general price controls, continued to creep upward, advancing another 2.6 percent between February and November 1951. The largest increases have occurred where controls, under the law, could be imposed only partially or not at all.

Wages rose during 1951, although at a much lower rate than in the second half of 1950. Wages and salaries were at an annual rate of 174.6 billion dollars in the fourth quarter of 1951, contrasted with 157.9 billion a year earlier. The rise was greater in the durable goods industries than in nondurables. Average weekly earnings advanced proportionately less than the increase in hourly earnings, because of the decline in working hours. In manufacturing, average weekly earnings rose from \$62.23 in November 1950 to \$65.25 in November 1951, a rise of 5 percent.

Corporate profits before taxes in 1951 were the highest on record, reaching an estimated 44.8 billion dollars. The previous peak was 41.4 billion reached in 1950. However, because of lower sales and prices in many industries, profits declined substantially after the first quarter.

Corporate profits after taxes were much lower in 1951 than in 1950, because of the higher tax rates. In 1951, they were an estimated 18.1 billion dollars, compared with 22.8 billion in the peak year 1950.

Unincorporated business and professional incomes for the year were 23.6 billion dollars, compared with 22.3 billion in 1950. After rising sharply in the first quarter of the year, they declined substantially until the fourth quarter, when it is estimated that they again rose.

Farm income in 1951 was 17.0 billion dollars, compared with 13.7 billion in 1950. It rose slowly throughout the year, reaching a level of 18.0 billion in the final quarter—2.2 billion higher than the fourth quarter of 1950.

Personal income in the aggregate kept growing in 1951, although at a slower rate than in 1950. For the year as a whole, it was 251.3 billion dollars, compared with 224.7 billion in 1950. In the fourth quarter, personal income was at an annual rate of 258 billion dollars, compared with 238 billion a year earlier. Despite increased personal tax liabilities, spendable personal income was 15 percent above its pre-Korea level in the fourth quarter of 1951. When the figures are adjusted for price changes, however, total spendable income in 1951 did not regain late 1950 levels until after midyear.

Personal consumption expenditures were 204.4 billion dollars in 1951, compared with 193.6 billion in 1950. They dropped sharply after the first quarter peak, and then rose gradually to an annual rate of 205.0 billion in the fourth quarter, or 6.6 billion higher than a year earlier. Adjusted for price changes, however, the volume of consumer purchases in the second half of 1951 was about 3.5 percent lower than in the second half of 1950.

Consumer supplies, in the main, were extraordinarily abundant. About 1.1 million new houses were built. About 5.3 million automobiles were assembled, and about 12½ million radios and more than 5 million television sets were produced. Food consumption was above the 1947–50 average. Clothing supplies exceeded the demand.

Personal saving, the difference between disposable income and expenditures, bounded upward from 4 percent of income in the first quarter of 1951 to a rate above 9 percent for the rest of the year. This high rate of saving was almost twice the pre-Korean postwar average. In 1951, personal net saving was 18.5 billion dollars, contrasted with 10.7 billion in 1950. In the fourth quarter of 1951, the annual rate was 23.0 billion dollars.

Domestic investment was higher in 1951 than in any previous year, the total being 58.8 billion dollars contrasted with 48.9 billion in 1950. Mainly because of the bulging of new inventories in the first half of the year, the rate of growth was uneven. Gross private domestic investment accounted for 18 percent of total national output, or slightly more than in 1950. Expenditures on nonfarm plant and equipment grew throughout 1951, with increasing emphasis on programs for urgently needed expansion in key industries. These expenditures totaled 31.6 billion dollars in 1951, compared with 25.6 billion in 1950.

More new construction was put in place in 1951 than in any previous year. The total for 1951 was 30 billion dollars, compared with 28 billion for 1950. But starting in September, the total rate dropped below that of the comparable month in 1950, with the principal reductions occurring in commercial and recreational construction. The volume of public construction exceeded 1950 by nearly 2 billion dollars, as new defense and defense-related projects more than offset reductions principally in highways and conservation and development projects..

Inventories were accumulated by manufacturers and distributors in 1951 at the highest rate on record—8 billion dollars. The annual rate reached a peak of 14.8 billion in the second quarter, as consumer buying dropped sharply; it dropped to 3 billion in the fourth quarter, with retailers once again achieving a more comfortable inventories-sales position.

Corporations financed expansion programs during 1951 without great difficulty. A smaller proportion—about 40 percent—of total funds used came from internal sources than in recent years, and a larger proportion came from outside sources. New stock and bond issues totaled almost 60

percent higher than in 1950, with the proportion of bonds relatively high. Government financial aids stimulated expansion in selected areas, but contributed only a small fraction of total funds used.

Private credit expanded at a much slower rate in 1951 than in 1950. Nonbusiness loans of commercial banks—including their consumer and mortgage loans—increased by about 1.5 billion dollars in 1951, compared with 4.4 billion the year before. Such loans totaled 31.8 billion dollars at the end of 1951. As a result of the financial needs of defense-supporting activities, commercial and industrial loans by banks grew almost as rapidly as in 1950.

The privately-held money supply expanded nearly 9 billion dollars in 1951 as a whole. It declined sharply in the first quarter as heavy tax payments were made, and then grew steadily in the last three quarters of the year.

International transactions of the United States during 1951 saw the expansion in exports of goods and services, which reached a peacetime record of more than 20 billion dollars, exceed the expansion in imports. Imports also reached a new high, despite a slump in commodity imports in the second and third quarters. Exports of semi-finished and finished products increased in quantity as well as price. The export surplus, which had fallen to an annual rate of 1.5 billion dollars in the second half of 1950, increased to a rate of about 6.5 billion in the second half of 1951.

Foreign aid extended during 1951 increased by much less than the export surplus, and the gold and dollar outflow was reversed. Exports of private capital dropped below their 1950 level. United States private investors continued to encounter obstacles to investment abroad.

In other free nations, total industrial production, money incomes, and prices rose in 1951 compared with 1950, but agricultural production showed little change from the preceding crop year. The balance of payments positions of some countries, notably the United Kingdom and France, became worse during the year, and the general economic situation deteriorated in a number of countries. The worldwide rise in prices, set off by the Korean hostilities, slowed up or was partly reversed in most countries during the first half of 1951, although in many it was resumed during the second half of the year.

Government finances involved, for the Federal Government, a shift from a sizable surplus to a substantial deficit during the course of calendar year 1951. For the year as a whole, Federal expenditures were 56.8 billion dollars, and net budget receipts were 53.5 billion. This left a calendar year budget deficit of about $3\frac{1}{3}$ billion dollars—3 billion more than in 1950. Expenditures for the major national security programs totaled 37.3 billion dollars. On a “cash” basis, which includes the cash receipts of the social security and other trust funds, a surplus in the first half of 1951 and a deficit in the second half added up to a cash surplus of 1.2 billion for the year as a whole.

In its management of the public debt, the Treasury not only did some new borrowing, but also refinanced a substantial portion of the outstanding debt during the year. Of importance in keeping the debt outside the banking system, and hence minimizing its inflationary potential, was the exchange of 13.6 billion dollars worth of marketable long-term bonds for nonmarketables and the legislative extension of the interest-bearing period for Series E bonds.

State and local governments, with revenues increasing slightly more than expenditures since 1950, showed a deficit of 400 million dollars in 1951, a reduction of 500 million from 1950.

HARRY S. TRUMAN.

JANUARY 16, 1952.