

*Mr. Eccles*

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 17, 1950.

To: Mr. Carpenter

From: Ralph A. Young

The attached copies of a "Visual-Auditory Presentation" are for prompt distribution to members of the Board and senior staff. This memorandum is the basis for the staff presentation of the economic situation to the Directors of the International Monetary Fund at 11:00 o'clock this morning.

(Signed) R.A.Y.

Attachments

May 15, 1950

VISUAL-AUDITORY PRESENTATION

Welcome - Governor Szymczak

On this occasion my part is chiefly to extend to you, on behalf of the Board of Governors of the Federal Reserve System, a hearty welcome. The program will consist of two parts of equal length -- a visual-auditory presentation of current economic conditions in the United States by the Board's staff and a discussion thereafter to develop further the facts about subjects of special interest. Then at 1 o'clock we shall adjourn to the staff dining room for lunch.

The Board of Governors long ago pioneered in the extensive use of charts for studying economic developments and presenting the results of research. For two decades or more the Board's meeting room has had charts on the walls. For many years the Board has issued chart books and during the past three years a new book has been issued every month with the series brought up to date. In discussions of this sort concerning current developments, however, we have been able to use relatively few charts. This morning we are using a new visual technique which will permit us to show charts covering many subjects. We hope you will find the information and analysis useful. Ralph Young, the Director of the Board's Division of Research and Statistics, will take charge of the meeting from this point.

Perspective, 1900-1950 - Young

In planning this presentation, we have aimed to select materials which will give a fairly comprehensive view of the current economic situation in the United States in a brief period of time. To accomplish this we have limited ourselves in three respects. We have not attempted to cover the world beyond this country's borders. We have not tried to project events in this country into the future. And, finally, we have not undertaken to discuss issues of policy. All these naturally are of interest to us as well as to you, however, and we hope that this presentation will be of some assistance in providing background for consideration of all these matters.

Even within the limits set the problems of selection are great because the real situation is very complex and because we do have quite a few data. The general scheme we shall follow is first to comment very briefly on the nature of changes since the turn of the century and since before the war. Then we shall concentrate attention on postwar developments, emphasizing particularly developments of the past year and a half.

Five members of the Division's staff will participate with me in this presentation. Frank Garfield is Adviser on Economic Research. (Rise, smile, and remain standing.) Kenneth Williams has responsibility for the Division's analysis of national income, money flows, and employment. Clayton Gehman specializes in the study of prices and markets. Homer Jones

supervises the Board's Survey of Consumer Finances and various other projects in the field of consumer finance. Richard Youngdahl is responsible for the Division's work in the field of government finance and has had much experience in analysis of banking developments.

Turning now to the review itself, I want to comment particularly on a feature of the U.S. economy which stands out no matter how long or short the time period examined. Ours is a highly dynamic economy. Change and adjustment are still central features of our way of life. Over long periods growth is very substantial. As the first chart shows, since 1900 the population has doubled, rising from 75 million to 150 million. Techniques of production and machinery design have changed in a thousand ways that even Frederick Taylor could not have foreseen in 1900. Productivity in manufacturing -- output per man-hour -- is about 275 per cent higher now, or nearly four times what it was. Products have changed too. No modern dictionary of 1900 included reference to radio, nylon or penicillin. Total production in the economy has risen over 400 per cent since the turn of the century and production at factories is up nearly 600 per cent. The chemical industry, which now accounts for nearly one-tenth of all manufacturing output in the U.S., has been developed almost entirely in the three decades since the first world war. Changes in products and processes have transformed our ideas about resources and living needs.

(Lights out  
Team down)

(Economic  
changes  
1899-1949)

One of the important factors which has made possible our dynamic economy, with its mass markets and rising living standards, has been a wide distribution of income. At the extremes, it is true, the differences in income are great. Broadly speaking, however, the gradation from high to low is gradual. Thus in 1948 the average money incomes before taxes of the three middle fifths of all families were about \$4,700, \$3,400, and \$2,200. These compared with \$9,900 for the top group and \$900 for the lowest group. The shares of total income received by these five groups of families are shown in this table. From 1935 to 1948 the share of the four fifths below the top group rose from 47 per cent to 53 per cent, as those previously unemployed gained the most from fuller utilization of resources.

(Family  
income  
(table))

(Share of  
income  
(table))

In short periods the cyclical ups and downs of activity which characterized the 19th century have continued, varying in duration and intensity. The chart, in which equal vertical distances represent equal percentage changes, shows for the period from 1919 to date how the physical volume of industrial production and the average of wholesale prices have fluctuated. You will note that the decline in industrial production in the first half of 1949 was small in comparison with the declines of 1920-21 and 1937-38, not to mention the depression of the early '30's. It was about the same in extent as the 1924 recession. Prices declined more from the summer of 1948 to mid-1949 than in 1924 or 1938 but much less than in 1920-21 or in the '30's. Circumstances

(Production  
and prices)

in the recent period as in every other period have been to a degree unique.

Over the years, within the broad framework of a dynamic private enterprise economy, changes in economic and social institutions have occurred which may have significant influence in shaping the course of future events. The Federal Reserve System, for example, was not in existence at the turn of the century. Unemployment insurance, farm price supports, and, for that matter, income taxes were not in effect then.

In the field of international relations, the position of the United States was that of a debtor nation just beginning to have some influence in world affairs. Now, after two world wars, the responsibilities of this country are very great. This new position, along with changed views on the wastefulness of unemployment, may well have an important bearing on the nature and extent of efforts to prevent wide swings in economic activity.

The record of the economy since the war has reflected very directly the tremendous impact of wartime developments, although this country was fortunate enough not to be devastated by combat. Some of the more important economic changes in the decade from 1939 to 1949 will be reviewed by Frank Garfield,

Perspective, 1939-1949 - Garfield

The whole decade of the '40's was influenced by international strife to a degree unprecedented in the history of this country. For nearly two years at the beginning of the decade economic activity was stimulated by war and preparation for war. During nearly four years of active warfare, economic activities were expanded and directed toward wartime objectives. During all the postwar years the profound efforts of wartime developments were being felt in the fields of production, employment, consumption and finance. At the end of the decade, moreover, international tensions were great.

Aside from increased participation by the U.S. in world affairs, one of the most basic changes during the decade of the '40's was a sharp increase in population, shown at the top of the last bar on the chart. Population rose by 18 million, or 15 per cent, as contrasted with 7 per cent in the '30's, 16 per cent in the '20's, and about 20 per cent in earlier decades of this century, when immigration was more of a factor. The impact of the recent increased rate of growth of population on demand for houses and schools is commonly noted. The additional markets for meat and milk and hence for feedstuffs are perhaps equally important; certainly they contribute to the solution of farm surplus problems.

(U.S.  
population)

The 15 per cent rise in population was accompanied by a similar rise in the labor force. Most other economic changes were much greater. Civilian employment rose 28 per cent and there was a substantial increase in the armed forces.

(Economic  
changes  
1939-1949)

Industrial production -- output at factories and mines -- was up 62 per cent. Output in the economy as a whole was up somewhat less than this. Even in agriculture, however, production had increased nearly 30 or 40 per cent. Which depends on whether you allow for the sharp decline in farm production of power for farm operations -- the substitution of tractors and gasoline for horses and oats.

Along with the changes in physical volume there were greater changes in prices and dollar amounts. Consumer prices in 1949 were two-thirds above prewar and wholesale prices were double. Gross national product -- the dollar value of output of all goods and of services -- was 182 per cent higher in 1949 than in 1939.

The rise over the decade in gross national product was (GNP) very general. For consumption expenditures, which amount to about two-thirds of the total, the rise was somewhat less than average. For investment outlays and for government expenditures (for goods and services) the rise was somewhat more than average. These figures, of course, reflect changes in prices as well as quantities. In quantity terms, consumer takings were up about 50 per cent rather than 166 per cent. On a per capita basis the rise in consumption was about a third.

The increase in gross product was somewhat more (GNP and Liquid assets) marked than the rise in the money supply but less marked than the rise in total liquid assets, including government securities



as well as bank deposits and currency. Both corporations and individuals increased their liquid asset holdings by about 250 per cent from 1939 to 1949.

This concludes our brief reference to the broad changes which occurred in the first half century and the decade from 1939 to 1949. We now undertake a closer examination of the postwar period. Within this period, events in 1949 and early 1950 will be emphasized.

We are all familiar with the broad advances in production, employment, and prices in the years 1946 to 1948. These advances occurred under the pressure of heavy demands from all quarters -- producers as well as consumers, foreign as well as domestic buyers. It was a period of rapid reconstruction and of replenishment of supplies of peacetime goods. At the same time defense activities were on a considerable scale.

(Production  
and prices)

Throughout this period one question continually being asked was how far demands of an obviously temporary sort would be replaced by other demands. Once the postwar boom was over, would we have a sharp short reaction such as that of 1920-21? Would any important decline perhaps lead to a depression such as that of the 1930's? We now have a record of the initial reaction in 1949 and are studying the extent and nature of the recovery from that reaction. We first take a look at changes in the volume of production, employment, and income. Kenneth Williams will discuss these developments.

Production and employment - Williams

The most marked fluctuations in activity since the end of 1948 have been in industrial production -- that is, manufacturing and mining. The contrast is indicated roughly by this chart of annual figures showing the physical volume of production in four key sectors. In agriculture there was little decline in 1949. In the construction industry and in the production of electricity and gas the levels of output were higher than in 1948, continuing the upward movements since the end of the war. In fact, the railroad industry was about the only one outside manufacturing and mining in which activity was greatly affected by the recession.

(Production)

Industrial production declined about 30 points or 15 per cent from the end of 1948 to the middle of 1949. By April this year it was three-fourths of the way back and a further increase is indicated for May, to about 190 per cent of the 1935-39 average as compared with 195 at the postwar peak in late 1948.

(Industrial  
production)

Production of nondurable goods declined somewhat less than output of durable goods from late 1948 to mid-1949, reflecting mainly stability in foods and tobacco products. In the subsequent recovery, nondurable goods rose slightly above earlier peaks. Durable goods, which had shown quite general declines, recovered more slowly and have not yet reattained earlier peaks. Minerals production reflected both the recession and frequent strikes in coal mining. Mineral output is still well below the 1948 level.

(Industrial  
production--  
durable-non-  
durable  
minerals)

For the textile industries, downward adjustment started earlier and was much sharper than for industry as a whole. Large inventories of textiles had been accumulated earlier and in this period they were liquidated. The effects of the decline in textile output, and of a similar decline in paper production, were felt in the chemical industry. In that industry, however, output was at a very high level, supported in part by growing demands for many new chemical products. After the middle of 1949 output in all these industries expanded rapidly -- textiles and paper to rates at or above earlier highs reached in 1948. Recently textiles have shown some decline again.

(Production--  
textiles  
chemicals)

In the steel industry, production continued to expand until March 1949, as steel consuming industries, long hindered by shortages, accumulated substantial stocks. Meanwhile, consumption of steel declined considerably in some lines -- shipbuilding, railroad equipment, and machinery. The reduction in output of steel was fairly moderate, however, partly because consumption in other lines was largely maintained or, notably in the case of automobiles, increased. Also, steel stocks were not reduced until the strike occurred toward the end of the year. The recent advance to capacity levels has reflected increased consumption as well as replenishment of stocks depleted during the steel strike last autumn. Output of nonferrous metals, like steel, is now back to earlier postwar peaks. Automobile production in May is at a new peak rate. The rise shown for machinery

(Production--  
machinery  
steel  
autos)

at the outset last autumn was in household equipment. More recently the rise has extended to many types of producers equipment and total output in the machinery industry is half way back to the late 1948 level.

The recession was evident in the building materials industries early in 1949 where production and employment declined and stocks accumulated. Declines in output were particularly pronounced in lumber and plumbing and heating. Later sharply increased demands from the construction industry led to a rise in output of building materials. This advance has continued this year and has been especially marked for lumber. Production of furniture and home furnishings has risen to a very high level.

The decline and recovery in the economy have been reflected in employment as well as in production but to a smaller extent, especially on the rise. This is partly because some of the changes in production have been reflected in changes in the average number of hours worked. Another important factor, particularly in the recent recovery period, is that productivity has been increasing. A large amount of new machinery has been installed since the war and keener competition has meant greater pressure for efficiency all the way around. Finally, employment in areas for which production measures are not available -- trade, service, and government -- has been quite stable.

(Non-farm  
employment)

Total non-farm employment decreased from 44.5 million in the autumn of 1948 to 42.7 million last summer. In April it was still at about this level. An increase is indicated for May. Employment in manufacturing and mining declined from 16.3 million at the end of 1948 to 14.9 last summer. In other activities, where nearly twice as many are employed as in manufacturing and mining, changes have been small but except for finance generally mildly downward.

(Industrial  
and other  
employment)

With the labor force increasing further, declines in employment in early 1949 and the little rise since then have resulted in increased unemployment. In February 4.7 million were reported out of work, the highest number in the postwar period. As a result of seasonal influences as well as of recovery, unemployment has since declined to 3.5 million which is about half a million more than a year ago and one and a half million more than two years ago.

(Unemploy-  
ment)

Meanwhile the same forces affecting production and employment have been reflected in changes in wage rates. Average hourly earnings at factories in 1949 showed little change, following progressively less marked increases in other postwar years. In other fields, however, hourly earnings continued to rise and this year there has been some small further advance at factories.

(Earnings)

Income from wages and salaries, which reflects changes in employment as well as in hourly earnings, declined in 1949.

(Personal  
income--  
wages and  
salaries)

Since the end of last year they have advanced but they have not yet reached the rate of late 1948. Income from other sources showed little change until this winter when the veterans insurance dividend began to be paid. Corporate dividend payments have continued to increase although the postwar practice of retaining an unusually large share of earnings in the business has continued in large measure. Farm incomes, on the other hand, have declined most of the time since mid-1948 from the exceptionally high level reached earlier. To some extent declines in wage income were offset by increases in unemployment insurance benefits. Also, greater declines in incomes in agriculture were prevented by Federal action to support farm prices.

Altogether personal income dipped very little in 1949 and now, not counting the veterans insurance refunds this spring, is almost back up to the earlier peak. Counting those dividends, total personal income in the first quarter was at a new peak, as shown in the chart. The level for the current quarter will continue to be very high partly for the same reason.

Changes in production, employment, and income have contributed to as well as resulted in part from changes in commodity prices. Clayton Gehman will discuss those changes.

Prices - Gehman

Commodity prices, which were declining a year ago, (Prices)  
stabilized last summer and during recent weeks have moved upward.  
The 10-month interval of stability in prices was in sharp  
contrast to earlier postwar periods. It apparently reflected a  
series of strong offsetting pressures rather than a high degree  
of stability in underlying economic relationships in this  
country and the rest of the world.

Prices of basic commodities showed some recovery last  
summer, when business demands expanded sharply after supplies  
had been reduced by production curtailments. By mid-September,  
when many foreign currencies were devalued, prices of domestic  
materials and imports had risen about 10 per cent.

Events following devaluation indicated the strength (Selected  
imports)  
of markets in this country. Declines in dollar prices of imports  
were much less than the extent of the devaluation. For example,  
dollar prices of 8 major commodities imported from sterling area  
countries, which devalued by 30 per cent, declined temporarily  
by 9 per cent. By January these prices had fully recovered  
and in the past 6 weeks they have risen further by 12 per  
cent to a point close to the postwar peak in 1948. Average  
sterling quotations for these items are now about 40 per cent  
above that peak. Natural rubber has advanced by two-fifths since  
March, and wool prices have risen again. The price-reducing  
effects of devaluation on dollar prices of foreign manufactured  
goods were more pronounced but of limited importance to U.S. price  
movements during this period.

While prices of industrial materials were advancing last summer, the average level of commodities other than farm products and foods was unchanged. Strong competitive influences resulted in further reductions in prices of some finished products and prevented increases in others. This trend continued for some months as consumer incomes showed little change and demand for producers equipment remained at reduced levels. There were some additional advances in prices of materials, including an increase in steel in December after settlement of an extended strike which reduced steel stocks considerably.

(Wholesale  
prices)

As is also shown in this chart, prices of farm products decreased further during the second half of the year to the lowest level since the end of price controls in mid-1946. This decrease, which was limited by Federal support operations, reflected another large harvest of crops and, in the closing months of the year, an expansion in marketings of livestock, milk, and eggs.

The expanded supply of these important products reduced food prices and accounted for the somewhat lower level of consumer prices as a whole during the winter and early spring of this year. The total index for consumer prices was very stable during most of 1949. There were declines in apparel and housefurnishings and increases in rents and service charges. During the past several weeks wholesale meat prices have risen 10 per cent, indicating that the consumer index will be higher for May.

(Consumer  
prices)



Altogether, since the first quarter of this year, when consumer incomes were supplemented by large veterans' insurance dividends and various other developments stimulated business demand, there has been a noticeable shift in the price situation. The area of advances has widened. There have been numerous increases in prices of metals and other materials used in the construction industry and in other durable goods industries. Trading activity in the organized commodity markets has expanded. Prices in those markets have generally risen, reflecting in part the growth of inflationary sentiment influenced by international and domestic developments. In the case of crops, production prospects have been reduced by unfavorable weather and Federal action to reduce plantings.

In security markets, prices of common stocks have risen sharply since last summer. Farm land values, which had been declining, have shown little change since last November and prices for urban residential property are firm. (Stock market)

While the general price situation has strengthened, there are various instabilities in the present situation. Export demands, despite a continuing large volume of Federal grants and loans to foreign countries, have declined further in 1950. (Exports and imports)

Merchandise exports were at an annual rate of 9 1/2 billion dollars during the first quarter -- a reduction of 30 per cent from the second quarter of last year. Imports of merchandise, on the other hand, expanded 20 per cent to an annual rate of 7 1/2 billion dollars.

As a result, the export surplus, including both goods and services, declined to probably the lowest level since before the war. This shift in the foreign trade situation was particularly noticeable in textiles. Exclusive of American cotton, textile exports were 35 per cent smaller in the first quarter than in the second quarter of last year, while imports were 80 per cent greater.

Domestic demand for textiles has also decreased this year and prices of print cloth have weakened. The relatively easy position of these and some other nondurable goods has been in marked contrast to the expanded demands in durable goods industries. This is illustrated by the 20 per cent rise in zinc prices since mid-March. Zinc prices have been influenced to some extent this year by increased Government takings for military stockpile purposes.

(Selected  
prices)

While prices of these and other materials showed considerable readjustment last year, a number of unusual price and income relationships, reflecting wartime shortages in this country and abroad, still persist. With industrial output and imports of goods rising, supplies again are being replenished. Also, apparently part of the current high demand for automobiles and houses still represents demand deferred from the war period, and other temporary influences may be important in current markets. It is evident, however, that, while prices are only moderately below their postwar peaks, the recent tendency has been for prices to rise rather than to decline.

In part, postwar price and production developments have reflected the influence of consumer buying, which will be commented on by Homer Jones.

Consumption - Jones

Consumer demand has been a strong factor in the postwar economy. Outlays rose continuously until the autumn of 1948. They dipped only slightly in the first quarter of 1949 reflecting reduced outlays for apparel and household equipment. The maintenance of consumer demand thereafter was no doubt a major factor in preventing the business decline from developing further than it did. In the market for automobiles, prices eased, especially for used cars, but consumers expanded their purchases of new cars, taking them about as rapidly as they could be produced. In the first quarter this year consumption outlays rose to a new high, influenced to some extent by the bulge in income payments as a consequence of insurance dividend payments to veterans. Purchases of autos were at peak levels despite a prolonged strike at the plants of a leading producer. Purchases of furniture and household equipment reached a new high, accompanying a very large volume of residential building. Apparel purchases, on the other hand, were at about the reduced level of last summer.

(Personal income-- disposable income, consumer expenditures, and net savings)

(Consumer outlays-- total durable, autos & household equipment)

Outlays for new houses, usually classified as investment outlays, in the latter part of 1948 declined from earlier high levels. Here again, however, as in the case of automobiles, expenditures were increasing in the second quarter of 1949 at the very time that activity was receding in many lines.

The large and well maintained consumer demand in the postwar period has been a result of a number of factors. Income

has been high. A backlog of demand for durable consumer goods and many semi-durables had been built up during the war. The amount of liquid assets held by consumers has been very large relative to income, largely as a result of the methods used to finance the war.

Consumer demand in the postwar period has been supported also by the ability to borrow easily. Consumer instalment credit outstanding on automobiles and other durable consumer goods has expanded by more than 2 billion dollars in each postwar year.

(Instalment  
credit)

During the first four months of this year the expansion has continued at about the earlier rate. Since the easing of Federal Reserve restrictions on instalment credit in the spring of 1949 and the removal of the remaining restrictions in June, part of the growth in instalment credit has reflected an easing of terms.

Down payments have been reduced and the time for repayment of loans has been extended considerably. Despite the marked increases in instalment credit, however, the amount outstanding is not yet as high in relation to income as it was before the war.

(Instalment  
credit--  
percent of  
income)

The increases since the war have been in the direction of regaining a relation to economic magnitudes which prevailed in earlier periods.

During the postwar years the Federal Reserve Board has made a special effort to learn as much as possible about the economic status of consumers, their buying intentions, and their views regarding the future. This information has been gained by periodically interviewing a cross section of the population. In the postwar period consumers have generally been optimistic about

their personal situations and general economic prospects. They have consistently indicated that they would buy large numbers of houses and automobiles and other major durable consumer goods. Generally, these plans have been carried out. Interviewing of consumers in January and February of this year has given us some current basis for anticipating a continuation of substantial consumer demand. As many consumers indicated intentions to buy new homes in 1950 as reported such intentions in 1949. The number intending to buy new automobiles was also as large as in early 1949. So far actual purchases have again been in line with plans indicated early in the year.

(Consumer  
plans to  
buy)

This completes the comment on consumption as a factor in postwar economic developments. Frank Garfield will discuss investment at this point.

(Gross  
National  
Product)

Investment - Garfield

While consumer purchases were well maintained in 1949, and government purchases increased, domestic investment declined considerably, as the chart shows. Further reference will be made to this chart later.

Business outlays for inventories declined dramatically from plus to minus. This is shown in the lowest line on this chart. The shift -- from an annual rate of plus 7 billion dollars in the fourth quarter of 1948 to a minus 4 billion in the third quarter of 1949 -- accounted for a large share of the decline in industrial production in 1949. For this reason the decline in business activity is often referred to as an inventory recession.

(Domestic  
investment)

A further reason for such a designation would be that the large volume of inventories on hand at the end of 1948 proved a threat to prices. In dollar amount, as shown on the chart, and in physical volume too, inventories reached new postwar highs all along the line. Total holdings of manufacturers, wholesalers, and retailers reached 59 billion at the end of 1948 as compared with 52 billion a year earlier. They declined to 54 billion by the latter part of 1949.

(Inventories)

The explanation of the recession in terms of inventory accumulation, however, is only part of the story. Machinery production, you have seen earlier, declined about one-fifth from the end of 1948 to the middle of 1949, reflecting a much sharper

(Domestic  
investment)

drop in new orders and a very rapid decline in unfilled orders. Practically no new orders were placed for freight cars and production of freight cars dropped from over 10,000 a month at the beginning of 1949 to about 1,500 at the end of the year. Shipbuilding had been declining for a long time before 1949. Truck production declined, especially output of heavy trucks. These developments were reflected, though not very promptly, in a moderate decline in expenditures for producers equipment as a whole -- as shown in the middle line.

Private construction expenditures also decreased for a time late in 1948 and early in 1949. It can be said, of course, that the declines in producers equipment and construction resulted in part from the shift in the inventory situation. But the argument may be turned around. Also, the fact that consumers after mid-1948 were no longer increasing their purchases of goods was an important cause of the reversal in business inventory policy. Developments in the foreign trade situation appear to have been another factor. Altogether, the characterization of this period as an inventory recession is a rough one rather than a complete account of what happened.

By midsummer, inventories were considerably reduced and evidence of strength appeared in many markets. Orders, which had been far below production and expenditures, increased sharply. Production rose. The rate of liquidation declined and by the first quarter of this year inventories were, in fact, increasing again despite strikes in some lines. Outlays for machinery and other equipment were also higher than they had been earlier.

Private construction had begun to rise as early as May when many other activities were declining. The rise has since been uninterrupted and private construction has reached new highs, a fourth above the level of a year ago. (New construction)

Most of the changes in private construction since the latter part of 1948 have been in residential building as business construction has shown little change. A dip in residential building in the winter of 1948-49 was followed by a rise which began in the spring and has continued ever since. The number of units started in April 1950 was 126,000 or 38,000 more than a year ago. In the first four months of 1950 the number started was 400,000 as compared with 260,000 in the corresponding period a year ago and a total of 1,025,000 for the whole year 1949. (Private construction)  
(Housing units started)

Because changes in plant and equipment outlays are often a very important factor in broad economic swings, the Department of Commerce and the Securities Exchange Commission conduct regular surveys to find out what outlays are planned for such purposes. The latest survey indicates that outlays in the first half of 1950 were expected to be the same as in the last half of 1949. Outlays in the second half of this year were expected to be down considerably. Events since the questions were asked early in the year, however, appear to be resulting in some upward revision of plans. Moreover, first estimates are often changed -- the final quarter of 1949 and the first quarter of 1950 estimates have each been raised 8 per cent in the figures shown. A large share of the decline from the 1948 peak has been in outlays by industrial -- manufacturing and mining -- enterprises. (Plant and equipment)



The factors affecting the actual course of such expenditures are, of course, legion, including the same basic forces that underlie speculative developments in the markets for materials at this time. Three special factors may be emphasized. First, the opportunities for cutting costs by installing new machinery are very great despite the large addition of new equipment since the war. Second, many new products are being developed. Research on a scale never before known lies behind both of these developments. And finally, business enterprises are in an exceptionally strong financial position because they have been making substantial profits for some time and retaining a very large share of these profits. (Profits)

During the postwar years prior to 1949, a considerable share of the increase in profits reported reflected the writing up of inventories as prices rose. During 1949, however, profits after allowance for inventory revaluation were greater than before such allowance.

During the postwar period, retained earnings plus current depreciation accruals have accounted for a very high proportion of the funds used by business for the purchase of plant and equipment and inventories, customer financing, and additions to cash and other liquid assets. In 1948, for example, while the total uses of funds by all non-financial corporations were estimated at 26 billion dollars, the total of depreciation accruals and retained earnings of the same businesses was 18 billion dollars, or roughly 70 per cent of total uses. In 1949, this proportion dropped to 56 per cent. Thus far in 1950 funds from operations are larger than

a year ago. The amount of outside financing through security issues has not been as large as a year ago although it has been larger than many had anticipated, reflecting strengthening in the business situation.

At the end of 1949 all business corporations, excluding banks and insurance companies, held cash and Government securities amounting to nearly 41 billion dollars, as compared with 38 billion at the end of the preceding year, while the total of their current liabilities had declined by 5.5 billion dollars during 1949 to 56 billion. Part of the increase in cash and Government securities was made possible by liquidation of inventories. Corporations have substantially increased their holdings of Government securities since the end of 1949 and their cash holdings have shown a smaller seasonal decline than usual.

Recent money and credit developments generally will be interpreted by Richard Youngdahl.

Monetary and fiscal developments - Youngdahl

From the monetary standpoint, the most significant factor (Money and liquid assets) in the postwar economy of this country has been the huge volume of money and liquid assets which individuals and businesses hold as a legacy of war finance. The inflationary impact of this monetary supply has been of concern to the Federal Reserve, particularly in the immediate postwar years. A number of measures were adopted after the war to place restraint on additional money expansion. As you can see from the chart, however, there was a further substantial increase in the money supply particularly in 1946 and 1947. In 1948 the monetary growth was rather small. With the downward economic adjustment last year, the Federal Reserve relaxed restraints previously imposed and created conditions of extreme monetary ease. Since mid-1949, monetary expansion has resumed and at the end of April 1950 deposits and currency totaled 3 billion dollars more than at the same time last year. The decline in the first quarter reflected in part large nonbank purchases of Government securities and in part tax payments to the Treasury in excess of Treasury expenditures, but the surplus was smaller than usual in 1950. In late 1949, with improvements in business activity, the Federal Reserve began to remove some of the stimulants to credit expansion adopted earlier to combat deflation.

Since the end of the war, demand for goods and services has been generally supported by expansion of credit. This credit has been extended by banks and by other lenders to the private sectors of the economy, to state and local governments, and recently to the Federal Government. In the first half of 1949, bank loans expansion was interrupted, but since mid-1949, as the chart shows, there has been a resumption of bank loan expansion. By the end of April total loans of all commercial banks were at a new high level.

(Loans--  
commercial  
banks)

Recent expansion in bank loans reflects primarily growth in credit to individuals, either as consumers or as home owners. Loans to brokers, reflecting advances to their customers for the purchase of securities, have also increased since the lowering of margin requirements in March 1949. Loans to farmers also increased through the first quarter of 1950, due to a rise in price-support commodity loans guaranteed by the Federal Government. Loans to businesses have run off slightly in recent months. The small amount of the decline, here, however, actually indicates a fairly active current demand for credit by businesses, since during this time of year a greater contraction in these loans might be expected for seasonal reasons.

(Loans--  
commercial  
banks--by  
type of  
loan)

Expenditures for goods and services by state and local governments have been rising in recent years. Needs for new schools, new roads, and other capital improvements have been great. The increases in such outlays are shown on the chart.

(Government  
purchases)

In addition to the outlays shown on the chart, many states have distributed bonuses to veterans. State and local governments borrowed for all of these purposes a net of over 2 billion dollars in 1949. About half of this credit was extended by commercial banks. The volume of new financing thus far this year indicates that state and local governments are increasing their total indebtedness even more in 1950.

Federal Government outlays for goods and services were larger in 1949 than in 1948, reflecting many factors including increased grants for foreign aid. Other expenditures also increased. Cash receipts, however, fell off, and the large cash surplus of the Federal Government in 1948 was turned to a small cash deficit in 1949. For the calendar year 1949, new Federal borrowing from the public amounted to nearly 2 billion dollars. In calendar year 1950 the Federal cash deficit is expected to be considerably larger -- probably 5 or 6 billion dollars. Increased amounts will have to be borrowed either from nonbank investors or at banks.

(Federal  
cash  
surplus)

In 1949, the Federal cash deficit was financed entirely by sales of securities to nonbank investors. As the chart shows, the combined holdings of commercial banks and the Federal Reserve Banks were about unchanged for the year. Life insurance companies continued to reduce their holdings of U.S. Government securities somewhat, but other nonbank investors more than offset this with their purchases. In the first quarter of 1950, nonbank investors increased their holdings of Government securities about 2 billion dollars. Holdings of the commercial and Federal Reserve Banks declined.

(Holdings  
of U.S.  
securities)

Member banks have held reserve balances amounting to between 16 and 16 1/2 billion dollars since the end of last September, following the series of reductions in reserve requirements over the period May through September. An increase in Reserve Bank credit offset the pre-Christmas flow of currency into circulation. When the currency came back from circulation after Christmas, the System absorbed the reserves banks thus acquired by selling Government securities.

(Member  
bank  
reserves)

As this chart shows, the largest decline in the Federal Reserve portfolio of Government securities so far this year has been in bonds, generally long-term issues not eligible for commercial bank ownership. Holdings of Treasury bills also declined considerably early in the year. These securities have largely been bought by nonbank investors, as commercial banks also reduced their holdings in this period.

(F.R.  
holdings  
of U.S.  
securities)

Following the recovery of economic activity last autumn, the Federal Reserve System began to modify the conditions of extreme monetary ease that had been created over the spring and summer. Strong demand for credit has been allowed to reflect itself in rising yields on short-term securities. From October to the present time, for example, rates on new Treasury bills have increased from about 1.04 per cent to 1.17 per cent, or by about 1/8 of 1 per cent. In addition, Federal Reserve sales of Government bonds have absorbed about 1 billion dollars of long-term investment funds, and average yields on long-term Government

(Money  
rates)

bonds which had declined to a very low level in 1949, have risen about 1/8 of 1 per cent since the first of the year. Yields on corporate securities, however, have remained close to the low levels reached at the end of 1949. This concludes the separate discussion of monetary and fiscal matters. The final statement will be on the whole domestic economic situation and will be made by Kenneth Williams.

Nature of Current Position - Williams

No adequate summary of the whole economic situation can be presented in a single chart -- or 10. It is important to look at physical volumes, prices, values and their relationships. Facts about income and expenditures, and employment, consumption and investment need to be considered in relation to credit and financial facts. It is essential to review developments year by year and month by month since the war and to look at current levels in relation to pre-war levels. Facts concerning international as well as domestic trade need to be shown. Some understanding of the nature of conflicts within and among nations is essential even though not subject to visual representation. Changes in economic processes, products and resources need to be considered in the light of changes in the institutional framework of society.

While no one chart can be designed to give an adequate summary, the chart now before you does show the total value of all goods and services produced in the United States since the end of the war, with separate lines for consumption, investment, and government expenditures. The outstanding developments shown for the total are the continuous rise until the end of 1948, the decline in early 1949, and the rise in the first quarter of the year. Since the first quarter there has been a further advance and the level today is only moderately below the peak of late 1948.

A year and a half has passed since the latter part of 1948 and the same level now would have a different meaning. In this interval the population has grown by over 3 million and the labor force

(Gross  
National  
Product)

(Labor force  
and  
unemploy-  
ment)



by about 1 1/2 million. New equipment installed has increased our capacity to produce. Simply to regain the levels of late 1948 would not reestablish the economic situation of that time. Unemployment would still be at a considerably higher level. To keep factories and mines as busy as when the industrial production index was at 195 would now require an index of 205 or 210. For the economy as a whole gross national product would need to be around 275 or 280 billion dollars now instead of 264 billion.

Growth in population and productive capacity continues. Thus it appears that we can maintain any particular level of resource utilization -- say the level of late 1948 or the present level -- only if we increase production and employment further. A high level of resource utilization, however, has proved difficult to maintain and it is important to consider some of the problems that might arise in that connection.

The post-war years may be regarded as a period of inflation (Wholesale Prices) based in part on temporary demands for which replacements must be found if we are to utilize resources fully. In particular it is observed by those who question the sustainability of the post-war prosperity that commodity prices are still only a little below peak levels reached in a period of substantial shortages of goods.

This differs from earlier postwar experiences. Also, some temporary factors and distortions within the economy are still evident. For example, the sharp rise shown in the chart on personal income in 1950 is mainly the result of heavy temporary payments to veterans. Without these payments, the level of income would have been around 212 billion dollars in March instead of the 223 billion shown. The fact that the recession last year ended soon and was followed by recovery suggests nonetheless that, under present conditions, there is a great deal of strength in the underlying situation.

(Personal  
income  
single  
line)

One of the developments which always need to be watched in a period of boom is the growth of debt. If debt is incurred in large volume on the basis of high valuations of property, liquidation may be on a larger scale subsequently, especially if lenders as well as borrowers are in a precarious position. Since before the war, the total debt has more than doubled and is now at the highest level ever reached. The increase in debt has taken place in both public and private debt. During the war, the increase was almost entirely in Federal debt. Since the war, the increase has been mainly in the private sector. State and local debt has also been expanding.

(Total debt)

(Public  
and private  
debt)

In some fields, the rise in private debt has been sharp since the war. Thus the amount of debt outstanding on residential property is double what it was. It is continuing to rise rapidly, moreover, as the rate of new lending continues at the high level reached in 1947.

(Home  
mortgage  
debt)

Many of the loans made on residential property, especially in recent years, have been guaranteed or insured by Federal agencies. Thus, in a period of weakness, the pressure for repayment might not be as great as otherwise. On the other hand, if in one way or another building is stimulated unduly, then property values at some time will be under great downward pressure.

New private residential building would then be reduced to very low levels. As can be seen in this table, the number of housing units started is subject to wide fluctuations. (Table Housing units started)

One way to look at the whole debt position is to ask how the volume of debt compares with current income. As the chart shows, the amount of debt owed by corporations and also by others has increased in relation to income but the ratio is still much less than before the war. For both groups the amount of the debt is also low in relation to the amount of liquid asset holdings. (Ratio of debt to income)

This is as far as we shall take the analysis of the nature of the postwar situation today. The general situation in the early part of 1950 has been one of advance, evident particularly in increased business orders and in rising prices of industrial materials. Earlier estimates of capital expenditure in the first half year have been revised upward. So also have most estimates of economic activity over the near term.

Over the longer term, as noted at the beginning of the presentation, growth and fluctuation have been characteristic of our economy. The rate of growth may well be accelerated in a period of widespread organized research. The effects of atomic fission have been tremendous already in the first few years of experimentation and should not be forgotten in thinking about the longer term.

(Production  
and prices)

As the second half of the 20th century opens, then, the problems of achieving generally sustained high and rising levels of activity, employment, and consumption -- in this country and abroad -- still confront us. They appear in new forms and our organizational setup to meet them -- private and public -- is changing too. With the stimulus of deferred demands, and an increased money supply, production, employment, and incomes have been at high levels since the end of the war. The recession last year was both short and moderate. Whether this sort of record continues will be shown in another set of charts to be presented at some future time.