What Will Our Dollar Be Worth?

What our dollar will be worth will depend on what the American economy can produce. Suppose that we have a depression after the war and prices fall as they did in the early thirties,--then our dollar will be "worth" more, technically speaking. But surely, this is not what we are interested in. What we must ask is: Will the American economy be healthy; will the people earn the dollars which they need, so that they can make a decent living? And this will be so only if we can accomplish a smooth transition to peacetime production, and if we can maintain a high level of economic activity after the war.

I. The Transition Problem

There are great inflation and deflation potentials in the transition period:

Deflation potentials: (1) A drastic cut in government expenditures will mean a drastic cut in incomes, and hence in what people can spend. This factor may result in a drop of consumption expenditures, by, say 25 billion dollars a year or two after the close of hostilities. (p. 1-2)

(2) Increased production of consumers' goods will also tend to ease the inflation pressure, the more so, the more rapid the reconversion. (p. 2)

(3) Government supplies can be liquidated; government inventories usable by consumers now amount to about 7 billion dollars. (p. 3)

Inflation potentials: (1) Consumers will save less out of current income and may draw on their accumulated liquid balances to finance purchases. They may "dissave" for various reasons,--to maintain their level of living, or to finance backlog demands or to "beat the price rise." If they are assured that the value of the dollar will be maintained, consumers should be willing to wait until goods are available. (p. 3-4)

(2) Business expenditures for repairs, expansion and inventories will add to income without immediately placing more goods on the market. Emphasis should be on consumers' goods production as long as inflation pressure continues. (p. 5)

(3) There will of course be continued and, perhaps increased price pressure on some scarce commodities. Continued controls are needed to hold the line. (p. 5)

Balance between inflation and deflation potentials:

As long as the type of buying which comes from inflation fear is avoided, there will probably be a good deal of

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leeway for increased spending out of current income or for dis-saving. This will not increase inflation pressure but merely replace the gap in spending left by curtailed government activity. To avoid price rises and inflation scares, controls must be maintained. (p. 7)

Unemployment:

Considerable unemployment in the transition period appears hardly avoidable. (For figures see p. 6).

II. The Post Adjustment Period

Assuming that by 1947 production adjustments have been made, what will be our output if there is little or no unemployment, and what will be the chances for obtaining such a level of output?

1. The gross national product would have to be about 165 billion dollars in 1943 prices. (This assumes a labor force of 60 million, with some 56 million employed and a somewhat less than normal increase in productivity from 1940 to 1947. (For figures and derivation, see p. 8.)

2. National income would be about 135 billion dollars and disposable income left in the hands of consumers after direct taxes about 120 billion dollars. (See p. 8 for derivation.)

3. Out of their disposable income of 120 billion dollars, consumers might save about 14 billion dollars. (In normal times, after backlog demand has worn off, they would be more likely to save 18 billion dollars.)

Of the 107 dollars spent, about 18 dollars would go for the purchase of consumers' durables, including 4 billion dollars of special backlog demand. (p. 9-10)

4. To individual savings of 14 billion dollars would be added about 16 billion dollars for business savings,--4 billion dollars of undistributed profits and 12 billion dollars of depreciation and depletion allowances. (See p. 10).

5. Would there be enough investment to take care of this 30 billion dollars of savings without a government deficit? Some figures on investment, which might make up this total are given on page 11. All these investment figures are based on very optimistic "guesses." For instance, residential and farm construction are "estimated" at 9 billion dollars. These levels of investment may be reached for immediate post transition years, but it is hard to see how they could be maintained for very long. (page 12). That is, it is hard to see how it will be possible to maintain the assumed high level of employment without the support of public policy.

Note: Pages 13-17 of the attached statement give supporting material for the estimates.

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