

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date: March 2, 1945

To Mr. Thurston

Subject: War Expenditures by United Nations

From Richard A. Musgrave R.A.M.

The attached tables are drawn from War Production Planning Document No. 21 prepared by Raymond Goldsmith. This document is labeled Secret but I should think this would apply more to the total figures in Table I than to the estimated ratios in Table II.

Table I shows war expenditures of the United States as compared to war expenditures by other United Nations for the years 1938 to 1944. The table shows that for the year 1944 U.S. expenditures amounted to 63 per cent of the total as against 60 per cent for the three-year period from 1942 to 1944. The figures are stated in dollar terms and converted at current exchange rates. This, of course involves all sorts of problems but comparative figures obtained by deflating current price levels in the various countries to their respective 1939 levels and then using 1939 exchange rates for purposes of conversion yield similar results.

Table II shows war expenditures by major nations as a per cent of their gross national product. If reference is made to the war effort, this is of course a much more significant comparison. It shows the ratios for U.S., Canada, United Kingdom, and Russia to be approximately the same and below both those of Germany and Japan. In dealing with statistics like these it is always startling to see how much lower the Russian gross national product is than one might expect -- approximately \$70 billion for 1944.

Attachments

Extract from War Production Board Planning Document No. 21
Labeled SECRET

TABLE I

Government Expenditures for War by Major United Nations
(Millions of U.S. Dollars at Current Exchange Rates)

	1938	1939	1940	1941	1942	1943	1944	1938 to 1944	1942 to 1944
1. United Kingdom	1,662	3,637	10,188	16,006	18,521	20,054	20,175	90,243	58,750
2. Canada	37	71	454	985	1,880	3,550	3,358	10,315	8,768
3. Other British Empire	211	268	761	1,546	2,853	3,332	3,388	12,359	9,573
4. Russia	5,130	7,790	10,640	16,720	20,596	23,693	24,396	108,965	68,685
5. France	872	2,854	5,178	--	--	541	728	10,173	1,269
6. Sub-total 1-6	7,912	14,620	27,221	35,257	43,850	51,170	52,025	232,055	147,045
7. United States	1,100	1,400	2,777	12,702	49,862	81,860	88,300	238,001	220,022
8. Total	9,012	16,020	29,998	47,959	93,712	133,030	140,325	470,056	367,067
9. 7 as % of 8	12.2	8.7	9.3	26.5	53.2	61.5	62.9	50.6	59.9

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Table II

Proportion of Gross National Product
Represented by Domestic Military Expenditures
In Chief Belligerent Countries, 1938-1944

Percent

	U. S.	Canada	U. K.	U. S. S. R.	Germany	Japan
1938	1	0	5	16	23	18
1939	2	2	10	21	31	20
1940	3	14	27	25	35	18
1941	11	24	37	34	39	28
1942	33	36	42	44	49	37
1943	44	46	43	49	49	43
1944	45	42	43	47	53	50

War Expenditures and Increase in the Public Debt
(in million dollars)

Period	U.S. Government Interest-bearing:		War	Increase in Debt
Fiscal year end- ing June 30	direct and guaranteed debt	Outstanding end :	Expenditures	as percent of
	of period	Increase	<u>1/</u>	war expenditures
1940	47,874	2,538	1,657	153.2
1941	54,747	6,873	6,655	103.3
1942	76,517	21,770	28,266	77.0
1943	139,472	62,955	75,298	83.6
1944	201,059	61,587	89,721	68.6
1945 <u>2/</u>	249,575 <u>3/</u>	48,516	89,000	54.5
1946 <u>2/</u>	289,007	39,432	70,000	56.3
TOTAL	---	243,671	360,597	67.6
Calendar 1944	230,361	61,629	90,884	67.8
Calendar 1945 <u>2/</u>	274,828	44,467	83,747	53.1

1/ Including war expenditures by RFC with the exception of 1940.

2/ Based on Budget Message of January 1945.

3/ The figure for February 28, 1945 is \$232,968 million. For the rest of the fiscal year a total increase in direct debt of \$18 billion is estimated. But since guaranteed debt is expected to decline by \$800 million and non-interest-bearing debt by \$700 million the above figure assumes an income of only \$16,600 million for the period from March 1 to June 30, 1945.

3/14/45

Actual and Potential Dollar Claims by Foreign Countries
(in million dollars)

	<u>December</u> <u>1940</u>	<u>December</u> <u>1944</u>	<u>December</u> ^{1/} <u>1945</u>	<u>June</u> ^{2/} <u>1946</u>
1. <u>Short-term claims</u>				
Official balances	1,266	3,200		
Private balances	2,519	2,400		
U.S. currency held abroad	250	500		
Total	<u>4,125</u>	<u>6,100</u>	<u>6,800</u>	<u>7,100</u>
2. <u>Long-term investment</u>	5,848	6,200	6,200	6,200
3. <u>Gold holdings</u>				
Monetary reserves of foreign countries	7,000	10,600	11,500	12,000
Under earmark in U.S.	1,808	3,937	5,000	5,400
4. <u>International Commitments</u>				
U.S. quota in Inter- national Monetary Fund	--	--	2,750	2,750
U.S. subscription in International Bank	--	--	3,175	3,175
Unused loan commitments of Export-Import Bank	290	317	1,975	1,975
Total	<u>19,071</u>	<u>27,154</u>	<u>37,400</u>	<u>38,600</u>

Note to table on dollar claims:

The estimates for 1945 and 1946 are based on the following assumptions:

- (a) That the rate of U.S. disbursements abroad remains the same as in 1944 until V-E (June 1945), and declines by approximately one-third thereafter.
- (b) That the increase in claims by foreign countries is distributed between short-term balances, and earmarked gold in the same proportions as in the preceding years. Changes in long-term investment are also possible, but they would result in a corresponding decline in short-term claims and/or earmarked gold.
- (c) That the rate of gold production resulting in increases in foreign gold holdings remain the same.

With respect to the U.S. quota in the International Monetary Fund, it should be noted that the utilization of the total quota is highly unlikely. The U.S. subscription in the International Bank has been included in the table although it has practically no relation to the creation of dollar claims. The use of 80 per cent of the U.S. subscription as guarantee fund for loans in default is for all practical purposes excluded in the immediate postwar period by the long-run nature of the operations of the Bank. On the other hand, dollar loans made or guaranteed by the Bank could exceed the U.S. subscription although they require U.S. approval.

The figures given for the Export-Import Bank are based on the assumptions that Congress will approve the requested lending authority of the Bank to 2.2 billion dollars.

With respect to foreign gold holdings, it should be pointed out that a conversion in dollar claims is very unlikely, at least for a substantial portion of the gold holdings.

3/14/45

Budget Summary, Fiscal Year 1946
(in million dollars)

Budget Receipts and Expenditures

Receipts		41,255
Expenditures		
War activities	70,000	
Interest on Debt	4,500	
Other	8,603	
Total	83,103	83,103

Trust Receipts and Expenditures

Receipts		6,671
Expenditures		6,163

The Public Debt

as of July 1, 1945	251,800
as of June 30, 1946	40,500 ^{1/}
Increase	292,300

1/ Of this increase \$1,100 million is in form of excess profits tax refund bonds.

Liquid Assets as Inflation Potential
(in millions of dollars)

	1	2	3	4	5	6
	: Total	: Currency held outside banks	: Currency held by Treasury	: Adjusted demand deposits	: U.S. Government deposits	: U.S. Government securities
June 1940	50,300	6,500	100	29,800	1,200	12,700
1941	58,600	8,000	200	34,700	1,700	14,000
1942	76,800	10,700	200	39,700	2,100	24,100
1943	125,200	15,600	200	53,800	8,500	47,100
1944	173,500	20,700	200	58,100	21,100	73,400
Dec. 1944 e/	192,300	23,500	400	65,000	20,900	82,500
June 1945 e/	197,900	25,500	200	67,000	13,700	91,500
1946 e/	219,500	30,000	200	74,000	11,700	103,600

e/ Estimated

The items included in the various columns are as follows:

- Column 2 -- excludes currency held by Treasury, Federal Reserve and other banks. The change for Dec. 1944 - June 1945 is estimated on basis of current rate of outflow seasonally adjusted. For June 1945-1946 the current rate of outflow is assumed to decline somewhat.
- Column 3 -- includes Federal Reserve Notes and Treasury Currency held in Treasury's General Fund.
- Column 4 -- excludes interbank, U.S. Government, insurance company, and building and loan associations, and items in process of collection. The small increase from December 1944 to June 1945 is explained by the fact that June 1945 is at the end of a war loan drive, and that time deposits are now growing at more rapid rate than demand deposits. The estimated increase from June 1945 to June 1946 is based on budget figures showing smaller government expenditures. Again, time deposits are estimated to grow more rapidly than demand deposits.
- X Column 5 -- includes Treasury deposits at Federal Reserve and other banks. Estimates for June 1945 and 1946 are based on U.S. budget estimates of Treasury balance.
- Column 6 -- U.S. gross debt, direct and guaranteed, excluding holdings of Federal Reserve, commercial and mutual savings banks, U.S. agencies and trust funds, insurance companies and building and loan associations.

Estimated increases for December 1944 - June 1945, and June 1945 to June 1946 are based on the following estimates by Mr. Piser, based on budget figures:

Changes in Ownership of U.S. Gross Direct and Guaranteed Debt

	<u>Dec. 1944-June 1945</u>	<u>June 1945-June 1946</u>
Increases in:		
Total debt	<u>20.0</u>	<u>40.5</u>
U.S. agencies	2.6	5.2
banking system	6.3	19.3
insurance companies	1.8	3.3
building and loan	0.3	0.6
other	9.0	12.1

3/14/45