

OCTOBER, 1946



BUSINESS CONDITIONS

A REVIEW BY THE FEDERAL RESERVE BANK OF CHICAGO

Federal Financial Outlook

Estimates of Receipts and Expenditures Revised Upward

The Federal budget for the fiscal year 1947 will fall short of balance by only 1.9 billion dollars according to the most recent official estimates—less than half of the 4.5 billion dollar deficit forecast in the President's message to Congress in January. Although expenditures are expected to be 5.5 billion dollars greater than was estimated earlier, the effect on the deficit of these additional outlays is more than offset by an 8.1 billion dollar upward revision in anticipated tax receipts. To cover the deficit and to continue the present debt retirement program, the Treasury's cash balance will be drawn down 10.8 billion dollars to a level of 3.4 billion on June 30, 1947. The total net decline in the public debt during the year will amount to 8.4 billion.

The substantial discrepancy between the January and August estimates of receipts is attributable to more optimistic assumptions as to the level of production and employment than those on which the January budget was based. Despite widespread strikes earlier in the year, the annual rate of national income accompanying reconversion in the first two quarters of 1946 remained well above the anticipated 140 billion dollar level. Consequently, the latest estimates of receipts are based on a revised national income figure of 165 billion dollars, which is only three billion below the peak rate of 168 billion reached in the first quarter of 1945. Estimated receipts allow for price increases amounting to one per cent per month and assume no change in the present tax structure. On this basis, net receipts will amount to 39.6 billion dollars compared with 31.5 billion estimated earlier, and will be 3.4 billion dollars smaller than in fiscal 1946.

Most of the increase in estimated receipts, as would be expected, will come from direct taxes on individuals which are 5.5 billion dollars higher than in the January budget. An additional 1.6 billion will be received from corporation income taxes. The latter, since they reflect 1945 incomes during the first half of fiscal 1947, will be less affected by the revision in the national income figure than will individual returns. Estimates of receipts from excise taxes were also increased by 700 million dollars on the expectation that the public's expenditures for taxable items will be maintained at a fairly high rate with a sustained level of income. It is assumed that the reduction of wartime excise tax rates will not take place until after the close of the current fiscal year. The President again urged that no further tax reductions be enacted until inflationary pressures subside.

EFFECTS OF NEW LEGISLATION

The breakdown of major expenditure items and the adjustments made since the January budget are shown in Table 1. Higher expenditure estimates are chiefly a reflection of new legislation, most of which is in connection with payments to veterans. Of the 3.7 billion dollar increase in

national defense expenditures, 2.4 billion represents commitments to cover terminal leave payments to veterans. Only 300 million of these payments will be made in cash, the remainder to be handled through a special bond issue. Another 600 million will be required for increased compensation for military personnel. In addition, estimates of expenditures for pensions and other benefits under the veterans' program were raised 1.8 billion, elevating this category to a position second only to the cost of national defense. Slightly less than half of the increase is attributable to pensions and more liberal benefits, while approximately one billion will be accounted for by greater utilization of educational privileges, job training, and unemployment benefits than was expected earlier.

Another category showing substantially larger expenditures compared with the January budget is international finance: The increase of 1.4 billion in estimated international commitments during fiscal 1947, however, does not represent any substantial addition to the program outlined earlier but embraces certain expenditures which were originally scheduled to be made during fiscal 1946. In January it was estimated that 2.6 billion would be spent for international finance for the fiscal year 1946, but actual expenditures amounted to only 600 million. The deferred payments consist principally of the 950 million dollar non-cash subscription to the International Monetary Fund and of Export-Import Bank loans not complete before June 30, 1946.

Partially offsetting the increased expenditures described

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TABLE 1
TREASURY RECEIPTS AND EXPENDITURES,
FISCAL YEARS 1946 AND 1947

(In billions of dollars)

Item	1946 Actual	1947	
		August Estimates	Change from January Estimates
Net Receipts	43.0	39.6	+ 8.1
Expenditures ¹			
National defense.....	48.2	18.5	+ 3.7
Interest on public debt.....	4.7	5.0	+ .2
Refunds	3.0	1.8	+ 1.8
Veterans pensions and benefits.....	4.2	6.2	+ 1.4
International finance.....	.6	4.2	+ .7
Aid to agriculture, including subsidies	.3	1.2	+ .4
Social security, relief, and retirement	1.1	1.2	+ .2
Housing excluding defense housing...	—3	.2	+ .7
General public works program.....	.4	.9	+ .7
Other	1.5	2.3	+ 5.5
Total expenditures.....	63.7	41.5	+ 2.5
Excess of expenditures over receipts....	20.7	1.9	— 2.5
Net redemption of Government cor- poration obligations in the market....	.1	.1
Net expenditures of trust accounts.....	.4	.4	+ .2
Change in Treasury cash balance.....	—10.5	—10.8	— 2.2
Change in public debt.....	+10.7	— 8.4	— 4.4
Public debt at end of year.....	269.4	261.0	—10.0

¹Includes net outlays of wholly-owned Government corporations and credit agencies other than debt redemption.

Full Employment: Comparison of Estimates

Views Conflict on Its Meaning and Maintenance

The American economy succeeded in avoiding the re-conversion slump forecast by many economists and statisticians during the last months of the war. This success has led numerous skeptics to disregard a set of longer-run appraisals made during the same period to guide policy formation. These longer-run estimates define as statistical "targets" the conditions required to maintain "full employment"—such figures as 60 million jobs and 200 billion dollars gross national product. Most estimators have gone further, and consider the prospects for satisfying these conditions under a free enterprise economy in the longer run after reconversion and the satisfaction of abnormal demand.

All the estimators agree as to the possibility of reaching and maintaining peacetime full employment, but there is little further consensus. Authorities differ sharply as to the methods to be relied on for the purpose. One group expects sufficient private spending and investing to reach and maintain full employment automatically without Government assistance, given a sufficiently favorable "economic climate" in terms particularly of tax and labor legislation. The other group insists on the additional necessity of substantial Government spending for job creation, over and above the spending which governments would undertake with full employment maintained by private expenditures. Private investment, these writers feel, cannot normally be adequate to absorb private saving out of a full-employment national product, and Government must step in to prevent a fall of the product below the full-employment standard. They usually anticipate the financing of the additional job-creating Government expenditures by budget deficits in high employment years as well as in depressed periods, and consequently a mounting national debt.

These long-run estimates are quite independent of the pessimistic reconversion forecasts which have proved erroneous. The underlying logical analysis and statistical technique differ in important details. The long-run appraisals concentrate attention on the question whether or not private enterprise can maintain an adequate level of employment.

During the summer of 1946, inquiries were addressed to 30 of the best known estimators, including both economists and business and political leaders, to ascertain the extent to which the first postwar year has led to revisions in their view. Their replies indicate minor changes only. The optimist of 1944 or 1945 remains the optimist of 1946, relying on private spending and investing to secure and maintain full employment. The pessimist of 1944 or 1945 remains the pessimist of 1946, believing full employment to be obtainable only with deliberate Government spending.

POSTWAR TARGET ESTIMATES

Estimates of postwar full employment and output for the

United States have usually referred to post-reconversion years; 1950 and 1947 have been popular selections. A majority of the estimates have clustered about the two key figures mentioned above: "Sixty Million Jobs" (including the armed forces) and "A 200-Billion-Dollar National Product" (at 1943 or 1944 prices—approximately 15 billion dollars higher at those prevailing in mid-1946). June 1946 employment, nearly full under the stimulus of accumulated demand, is estimated at 59.7 million, and second quarter gross national product at 185 billion dollars annual rate. These statistics are seasonally adjusted; the employment figure includes the armed forces.

Most of the figures listed for 1946-47 in Tables 1 and 2, and all those listed for 1950, are targets. Only a few are actual forecasts. They are targets in this sense: unless they are reached approximately, high employment prosperity will not be attained. None of the estimators has been so rash as to predict such figures more than 18 months in advance. Some are frankly dubious regarding the possibility of maintaining them automatically, or even of reaching them at all except under such boom conditions as are brought on by the present backlog of deferred demand or by a large-scale Government spending program.

The figures in the tables are practically without exception higher than corresponding historical data for such past peak years as 1919, 1929, and 1941. The increases allow for population growth, for higher labor productivity and technical progress, and usually for higher prices.

All estimates include in the "employed" group for whom "jobs" are required, the self-employed business man, professional man, and farmer. They also presume all labor to be voluntary; nobody is to be forced to work to raise the number of workers to 60 million or any other preassigned figure.

The 30 target estimates, whose results have been assembled for reference and comparison in the three accompanying tables, were made originally with widely varying degrees of completeness and precision. They are not completely independent but rely somewhat on each other's results. When estimators have revised their conclusions, only the latest figures are used. Each estimator has been given an opportunity for revision in the light of post V-J developments, and simultaneously for placing his figures on a current or expected price basis. In consequence, the tabulated figures will sometimes fail to coincide with the published sources from which they were taken originally.

DISAGREEMENTS IN THE ESTIMATES

At first glance, the range of disagreement between the estimates appears tremendous, particularly with regard to the level of national product required for full employment. Dr. John Lee Coulter, formerly with the Tariff Commission

TABLE 1
THE MEANING OF FULL EMPLOYMENT — HOW MANY JOBS?
(millions)

Estimator	1 Year	2 Total Labor Force, Including	3 Residue of "Abnormal" War Workers	4 Number Unemployed	5 Total Employment 2-4	6 Size of Armed Forces	7 Civilian Employment 5-6	Notes
I Actual Data for Comparisons: U. S. Department of Commerce Bureau of the Census	1940 1944 1945 1946 (June)	54.5 63.9 63.0 62.3	— — — —	7.5 0.9 1.2 2.6	47.0 63.0 61.8 59.7	0.5 11.2 11.0 3.0	46.5 51.3 50.3 56.7	<i>Survey of Current Business</i> , Feb. 1945. <i>Ibid.</i> , February 1946. <i>Ibid.</i> Secretary Wallace, "Present Level of Employment," <i>Philadelphia Record</i> , August 4, 1946.
II Full Employment Estimates, 1946-47: John Lee Coulter, Committee of Americans	1946	54	—	2	52	2	50	<i>Postwar Fiscal Problems and Policies</i> , Assumes youths, women, and elderly persons will not desire or seek work. Basis for "The 60-Million Job Myth" <i>Saturday Evening Post</i> , May 5, 1945.
Editors, <i>Fortune Magazine</i>	1946	59.4	1.3	4.0	55.4	3.5	51.9	<i>Fortune</i> , January 1944. Has been placed on 1950 basis by Edwin George, <i>Dun's Review</i> , May 1945.
Spurgeon Bell, et al Interstate Commerce Commission	1947	62.73	3.72	2.30	60.43	1.70	58.73	<i>Postwar Earnings of Class 1 Railroads</i> . Also gives comparable estimates for 1946 and 1948.
Chester Bowles, formerly Director of Economic Stabilization	1947 (?)	—	—	—	60	—	—	<i>Tomorrow Without Fear</i> . Year uncertain.
Melvin de Chazau, et al* Committee for Economic Development	1947	60-61	Perhaps 1.0	2-3	57-59	2-3	54-57	<i>Jobs and Markets</i> .
Edwin B. George* Dun & Bradstreet, Inc.	1947	60.5	0.2	2.7	57.8	1.8	56.0	<i>Commercial and Financial Chronicle</i> , January 24, 1946.
E. A. Goldenweiser and Everett E. Hagen,* formerly Board of Governors, Federal Reserve System	1947	60	2.5	2	58.0	—	—	<i>Federal Reserve Bulletin</i> , May 1944.
Joseph B. Mayer* Brookings Institution	1947	61.3	—	2.0	59.3	1.7	57.6	<i>Postwar National Income: Its Probable Magnitude</i> .
Robert J. Myers and N. Arnold Tolles U. S. Department of Labor	1947	60.0	—	2.0	58.0	2.5	55.5	<i>Monthly Labor Review</i> , September 1945. Subsequent Census investigations have raised labor force estimate (col. 2) by approximately 2 million.
David C. Prince* General Electric Company	1947	59.0	—	2.5	56.5	2.5	54.0	<i>Planning the World We Want</i> .
Kenneth Ross, et al Stein and Roe	1947 (2nd half)	61.0	—	3.0	58.0	1.6	56.4	<i>Business Review and Forecast</i> , June 28, 1946.
Sumner H. Slichter* Harvard University	1947	60.0	—	3.0	57.0	2.5	54.5	Twentieth Century Fund, <i>Financing American Prosperity</i> .
III Full Employment Estimates, 1950: R. G. D. Allen London School of Economics	1950	61.5	1.5	2.0	59.5	2.5	57.0	Royal Economic Society, <i>Memorandum No. 105</i> , March 1946.
Louis H. Bean* Bureau of the Budget	1950	61.5	—	1.5	60.0	—	—	<i>Review of Economic Statistics</i> , November 1945. Figures revised upward 1 or 1.5 millions, summer 1946.
John M. Blair, et al, formerly Smaller War Plants Corporation	1950	61-62	—	3	58-59	—	—	<i>Economic Report: Taxation</i> .
Everett E. Hagen and Nora B. Kirkpatrick, formerly Office of War Mobilization and Reconversion	1950	59.5	1.0	2.0	57.5	2.0	55.5	<i>American Economic Review</i> , September 1944.
Arno H. Johnson J. Walter Thompson Company	1950	62	3	3	59	2	57	<i>Journal of Marketing</i> , October 1945.
S. Morris Livingston U. S. Department of Commerce	1950	60.4	Enough to offset War Casualties	2.4	58.0	2.5	55.5	<i>Journal of the American Statistical Association</i> , March 1945. Certain figures interpolated with author's approval by Edwin George, <i>Dun's Review</i> , May 1945.
Jacob L. Mosak Office of Economic Stabilization	1950	62.3	2.3	1.5	61.3	2.5	58.8	<i>Econometrica</i> , January 1945.
John H. G. Pierson* U. S. Department of Labor	1950	61.5	1.0	2.0	59.5	2.0	57.5	National Planning Association, <i>Fiscal Policy for Full Employment</i> .
Beardsley Ruml, et al National Planning Association	1950	61.5	1.5	1.5	60.0	2.5	57.5	National Planning Association, <i>National Budgets for Full Employment</i> .
Arthur Smithies U. S. Bureau of the Budget	1950	61.5	—	1.5	60.0	2.5	57.5	<i>Econometrica</i> , January 1945.
Rufus S. Tucker General Motors Corporation	1950	58.3	0.1	3.0	55.3	2.0	53.3	National Industrial Conference Board, <i>Measuring and Projecting National Income</i> . Labor force could be raised to 64 million by lowering real wages or employing women and children, or to 60 million by drastic inflation.
Henry A. Wallace, formerly U. S. Secretary of Commerce	1950	61.5	2.0	1.5	60.0	2.5	57.5	<i>Sixty Million Jobs</i> .
Clark Warburton Federal Deposit Insurance Corporation	1950	—	—	—	58	—	—	<i>Southern Economic Journal</i> , Jan. 1945.
W. S. Woytinsky Social Security Administration	1950	60.0	0.5	2.5	57.5	2.0	55.5	<i>Social Security Bulletin</i> , January-March 1946.

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TABLE 2
THE MEANING OF FULL EMPLOYMENT — HOW MUCH MONEY?
(Billions of dollars)

Estimator	1 Year	2 Price Level	3 Gross National Product (GNP)	4 Net National Income	6 Special Assumptions About		Notes
					5 Hours of Labor	Productivity of Labor	
I Actual Data for Comparisons:							
U. S. Department of Commerce Bureau of Foreign and Domestic Commerce	1940 1944 1945 1946 (2nd quar.)	1940 1944 1945 1946 (2nd quar.)	97.0 197.6 197.3 185.0	70.8 160.7 161.0 161.0 (income payments)	— — — —	— — — —	<i>Survey of Current Business</i> , Feb. 1945. <i>Ibid.</i> , February 1946. <i>Ibid.</i> <i>Ibid.</i> , July 1946. Seasonally adjusted, annual rate.
II Full Employment Estimates, 1946-47:							
John Lee Coulter	1946	1944, adjusted	—	110-120	20% below 1944	20.5% above 1930	Prices "adjusted" by returning wages to "normal" & farm prices to "parity." Coulter now considers estimates approximately 25% too low, due to government wage and price policies.
Editors of <i>Fortune</i>	1946	1943	165.0	—	Prewar	2.5% annual increase	<i>Postwar Taxes</i> Productivity increase estimated for private non-agricultural labor only. Year and price level uncertain.
Twin Cities Research Bureau** Spurgeon Bell, et al	1946 1947	Estimated 1946 38% above 1935-39 average	— 210.7	165 178.4	— 40.3-hour week	— 32% above 1939	Productivity increase considered as retarded during first postwar year, accelerated thereafter.
Chester Bowles Melvin de Chazeau, et al**	1947 (?) 1947	1945 (?) Estimated 1946	200 200-210	160 —	— Prewar	Slowly increasing 2-3% annual increase	Productivity increase considered as retarded during first postwar year, accelerated thereafter.
Edwin B. George* ** E. A. Goldenweiser and Everett E. Hagen* ** Joseph B. Mayer*	1947 1947 1947	Estimated 1946 Estimated 1946 2nd Quar. 1946, approximately	195.5 199 —	— — 177-187	Same as 1940 Same as 1940 Slightly above June 1946	10% above 1940 10% above 1940 See Notes	Distributive shares estimated separately; price level not estimated explicitly. Productivity increases over 1946 reflected in higher wages (\$187 billion estimate) or lower prices (\$177 billion est.). Wage rates assumed 10 percent above 1944.
Robert J. Myers and N. Arnold Tolles	1947	1944, adjusted	—	150-160	—	—	Seasonally adjusted, annual rate.
David C. Prince* ** Kenneth Ross, et al	1947 1947 (2nd half)	40% above 1941 Ret. prices 45% above 1941	189.0 207.0	— 174.0	Same as 1941 Slightly above June 1946	Same as 1941 7% above 1941	Non-agricultural prices estimated 25% above 1940; agricultural prices 15% above 1944.
Sumner H. Slichter*	1947	See Notes	178.7	147 (income payments)	5% above 1940	10% above 1940 (non-agricultural)	
III Full Employment Estimates, 1950:							
R. G. D. Allen	1950	1939	153.0	123.0	Same as 1940	3.0% annual increase	States figure in col. 3 would exceed \$200 billions at current and 1944 prices. Figure in col. 3 somewhat higher at same price level, summer 1946.
Louis H. Bean*	1950	1944	200	—	—	—	
John M. Blair, et al	1950	1944	200	170 (depends on corporate tax rates)	—	—	
Everett E. Hagen and Nora B. Kirkpatrick**	1950	Estimated 1946	Over 210	—	37.8-hour week in basic industry	3.25% annual increase in basic industry	Separate estimates of hours and productivity made for different branches of industry.
Arno H. Johnson** S. Morris Livingston**	1950 1950	Estimated 1946 Estimated 1946	216.4 211.0	181.8 —	— Same as 1939	1.7% annual increase	\$200 billion figure (col. 3) selected from \$190-\$220 billion range. Figure in col. 3 considered conservative.
Jacob L. Mosak	1950	1944	200.0	166.5	Same as 1939	Average same as 1944	
John H. G. Pierson* ** Beardsley Ruml, et al**	1950 1950	Estimated 1946 Estimated 1946	215.0 214	181.8 186	Same as 1940 40-hour week	35% above 1939 2% annual increase	
Arthur Smithies	1950	1943	193	170	40-hour week	2% annual increase	Presents another set of estimates with 30-hour week.
Rufus S. Tucker*	1950	50% above 1935-39 average	200	149	Below 1941	1% annual increase	Productivity increase measured in GNP per employed worker, including armed forces.
Henry A. Wallace** Clark Warburton	1950 1950	Estimated 1946 1923-28 average	215 186-213 See Notes	— —	— 35-hour week	2.2% annual increase	Estimates "Value of Delivered Final Products" in preference to GNP. This measure equals GNP minus change in inventories, net export balance, and monetary absorption of gold and silver.
W. S. Woytinsky**	1950	Estimated 1946	196.6	169.3	3% below 1940	25% above 1940	Of two figures in col. 3, higher results from direct estimate, lower from per capita estimate adjusted for population growth.

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**Author has permitted deflation to estimated 1946 prices but is not responsible for the results.

III FULL EMPLOYMENT ESTIMATES, 1950

R. G. D. Allen 1950 153.0	1939	102.0	5.5	12.5	2.0	20.0	24.0	146.0	-7.0	Effects exhausted.	Taxes \$26.5 billions (including State and local). Federal budget surplus \$2 billions.	Also provides suggested spending pattern which balances but is not expected to result automatically.
Benjamin Higgins** McGill University 1950 210.8	Estimated 1946	144.8	—	30.6 (includes all construction)	2.7	33.3	32.7	210.8	0	Effects exhausted.	Budget deficit \$10.4 billions.	International Labor Office, <i>Public Investment and Full Employment</i> . Were budget balanced, Government spending must rise to \$59.6 billions, without allowance for restrictive effects of higher taxes.
Arno H. Johnson 1950 200	1945	145	—	—	—	27	28	200	0	Effects included.	Taxes \$28 billions (including State and local). Federal budget balanced.	
Michal Kalecki* ** Int'l Labor Office 1950 211	Established 1946	142	5	19	2	26	33	201	-10	Effects exhausted.	Income taxes at 1944 rates; excise taxes 50% of 1944 rates. Budget balanced.	Public lectures, University of Chicago, March 5-9, 1946.
Jacob L. Mosak 1950 200	1944	129	—	—	—	20	25	174	-26	Effects exhausted.	Income taxes at 1940 rates; other taxes at 1944 rates. Budget surplus \$7.5 billions.	Other estimates at higher tax rates; results more pessimistic.
Robert R. Nathan* ** Consulting Economist 1950 Nearly 200	1945	Nearly 160	—	—	—	—	—	185-190	-10 — -15	Effects exhausted.	Budget balanced.	<i>Mobilizing for Abundance</i> .
John H. G. Pierson* ** 1950 215.0	Estimated 1946	145.0	7.3	20.0	2.7	30.0	30.0	205.0	-10.0	Effects exhausted.	Taxes \$22 billions. Budget balanced.	
Beardsley Ruml, et al** 1950 214.0	Estimated 1946	144.0	7.5	17.5	2.5	27.5	32.0	203.5	-10.5	Effects exhausted.	Ruml-Sonne Tax Plan. Budget surplus \$2.7 billions.	"Adjusted Gap" model. Also gives suggested spending patterns which balance but are not expected to be reached automatically.
Arthur Smithies 1950 193.0	1943	132.6	6.0	11.0-16.0	2.0	19.0-24.0	31.0	182.6-187.6	-5.4 — -10.4	Effects included.	Income taxes at 1939 rates; excise taxes 50% below 1944; no excess profits tax.	Suggests \$9.5 billions deficit for stable full employment. Also presents estimates at higher tax rates (more pessimistic) and 30-hour week (more optimistic).
Rufus S. Tucker* ** 1950 199	50% above 1935-39	130	—	—	0	36	33	199	0	—	Budget surplus \$4.5 billions.	
Henry A. Wallace** 1950 215	Estimated 1946	145	—	—	—	32	38	215	0	—	Budget balanced.	Based on "Consumer-Business" model, most "stable" of several which balance but which are not presumed to result automatically.
W. S. Woytinsky** 1950 196.6	Estimated 1946	140.6	—	—	—	25.0	31.0	196.6	0	Accounts for \$4.4 billions.	Budget balanced.	Computations at 1941 prices show inflationary gap (positive figure in col. 10).

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**Author has permitted price deflation, but is not responsible for the results.

and now in private consulting practice, worked out the lowest figure of 110-120 billion dollars *net* income for the Committee of Americans. At the other extreme are a group of writers whose results appear to cluster a full 100 billion dollars higher, or 210-220 billion dollars *gross*. Even allowing for distinctions between gross and net income concepts, the range between these extremes is so large when compared to their average as to generate some skepticism regarding the accuracy of any of the results.

The estimates of the full employment labor force and number of jobs cluster somewhat more closely about their averages. Dr. Coulter again has the lowest figure, expecting a labor force of 54 millions which will require 52 million jobs, civilian and military. The maximum estimate is that of Dr. Jacob L. Mosak, formerly of the University of Chicago and now of the Office of Economic Stabilization. Dr. Mosak expects a full employment labor force of 62.8 millions requiring 61.3 million jobs. The ranges of 8.8 millions in labor force and 9.3 millions in required employment also appear surprisingly large.

There are four principal or substantive causes for disagreement in defining the full employment targets, involving matters in dispute among professional economists and statisticians.

1. Estimators disagree regarding the number of young people, older people, and women (particularly wives), who can be expected to remain in the voluntary labor force under conditions of peacetime full employment. Putting the matter more generally, they disagree regarding the relative size of the labor force in prosperity and depression. Dr. Coulter, for example, believes that the labor supply becomes artificially large during periods of depression because wives and children and retired grandparents look for work along with the principal breadwinner when he is unemployed. Dr. Mosak, on the other hand, is of the opinion that the prosperity labor force is the larger because more people are willing to work when numerous well paid jobs are available. Dr. Coulter's conclusion leads, as Table 1 shows, to a labor force 8.8 millions smaller than does Dr. Mosak's.

A further cause for disagreement regarding the size of any future labor force is uncertainty regarding its size in the past. The Bureau of the Census has recently revised in a generally upward direction its historical estimates. Some economists have utilized the revisions in their own appraisals of the full employment labor force, while others have not seen fit to do so.

2. Estimators disagree as to the probable length of the postwar work week. Some writers project a downward trend in hours, getting smaller values for national product than do others who follow the prewar pattern. Dr. Arthur Smithies of the Bureau of the Budget, formerly of the University of Michigan, has carried through two complete sets of estimates, one for a 40-hour and one for a 30-hour week. The difference due to this factor alone amounts to 48.3 billion dollars at 1943 prices.

3. Estimators disagree as to the number of temporarily or "frictionally" unemployed people who will not have jobs at any given moment even at "full employment." The dif-

ference here is in part a matter of definition. There is a range of 2.5 million jobs between the low figure of 1.5 million men expected by former Secretary of Commerce Wallace (among others) and the high "float" of 4 million expected by the editors of *Fortune* magazine.

4. Estimators disagree regarding the probable future course of labor productivity and industrial innovation. The estimators all project a long-time upward trend in average product per man-hour or man-year, although differing considerably among themselves as to the percentage increase per year. (The range is from 1 to 3 per cent.) Some writers insist that the war interrupted any such trend as had existed previously, and work with present or wartime productivity figures.

In addition to these genuine differences, there are others which are purely formal and which tend to make the apparent range much greater than is justified by the actual conflict of opinion:

1. Some full-employment targets are set for 1946 and 1947, some for 1950. The later the year, the higher the estimate, since estimates for later years must allow for increases in both population and productivity. Dr. Coulter's low estimates of 110-120 billion dollars are for 1946; the 210-billions-and-up estimates refer to 1950.

2. Some estimates are made at 1935-39 prices, others at levels as much as 50 per cent higher. This difference does not affect the number of jobs, but does affect the required national output in money terms. Professor R. G. D. Allen of the London School of Economics, for example, who sets a relatively low target of 153 billion dollars in 1939 prices, adds a parenthetic warning that this figure represents over 200 billion dollars in prices of 1944 and subsequent years.¹

3. Most of the targets are set up in terms of gross national product (GNP) but a minority of estimators prefer to use net national income. Net national income is always smaller than gross national product by the total amount of depreciation allowances, business taxes, and certain minor adjustments.² The difference between the two amounted to 36 billion dollars in 1945; differences of the same order of magnitude can be found in those of the target estimates which compute both. Dr. Coulter's 110-120 billion dollar estimates, lowest of the group, refer to the net figure; the estimates of 200-billions-plus run in terms of gross national product.

INDIVIDUAL ESTIMATES TABULATED

The 30 individual estimates are arranged in three tables. Tables 1 and 2, taken together, represent the full employment target proper. Table 1 sets forth the estimated number of jobs, civil and military, required for full employment; Table 2, based upon the statistics of Table 1, provides conversions into terms of full employment GNP and full

¹Where estimators have permitted the conversion of their figures to estimated 1946 prices, conversion has been carried out and this source of divergence reduced. Except in cases where estimators had requested the use of other indexes, conversion was carried out according to the U. S. Bureau of Labor Statistics index of consumer prices, formerly known as cost of living. The estimated average value of this index for 1946 was set at 85 per cent above the 1935-39 average.

²The distinctions between various national income and product series have been outlined in *Business Conditions* for July 1946.

employment national income.

Table 3 goes further and shows the estimator's optimism or pessimism more clearly, since it indicates the estimator's belief or disbelief in the ability of a full-employment enterprise economy to sustain itself at this level without Government spending on a large scale.

The analysis of this table rests upon the necessary equivalence of gross national product and gross national expenditure, which follows from the definitions of the terms. The various estimators have computed the amounts which domestic consumers, business, and Government can be expected to spend from various levels of gross national product in a *normal* or non-boom year, as well as the expected net export surplus of expenditures by foreigners on American goods. The expected Government expenditures, it should be noted, include no make-work projects. Although many of the figures tabulated refer to the specific years 1947 or 1950, the references are illustrative only. They carry no connotation that 1947 or 1950 will actually be normal, non-boom, or full-employment years.

Total expenditures and gross national product are two views of the same picture. They are identically equal, but they are estimated separately here. Gross national product is derived from labor force, price level, and productivity estimates. Expenditures of various types are derived from gross national product on the basis of historical relationship in such periods as 1929-41. If gross national product and total expenditures appear unequal at any level when estimated separately, the level must be unstable on the basis of the economic model defined by the series of estimates. If a gross national product of 200 billion dollars, for example, appears to evoke gross national expenditures totaling only 190 billion dollars, the 200 billion dollar figure is impossible of attainment or maintenance under the given conditions. Balance between gross national product and expenditure can be reached only at some level at or below 190 billion dollars. Gross national product must fall before stable equilibrium is reached. If 200 billion dollars is a full employment target, while stability requires a gross national product of 190 billion dollars or less, the combined results indicate the impossibility of the attainment or maintenance of the full employment target according to the particular estimate, except under conditions of boom, deficit spending, or other abnormality. The estimator is a pessimist.

In terms of Table 3, the full employment target estimate of gross national product is shown in column 1, and the corresponding gross national expenditure appears in column 9. If gross national expenditure in column 9 is less than gross national product in column 1, a negative number or "spending deficit" appears in column 10. In the hypothetical illustration of the last paragraph, column 1 would be 200 billions, column 9, 190 billion dollars, column 10, *minus* 10 billion dollars.

In addition to a negative figure in column 10, other signs of pessimism can be read from the table. These signs include reliance on heavy "normal" Government spending (column 8), on a heavy "normal" budgetary deficit (column 12), or on the accumulated backlog of deferred demand (column 11) which will not endure indefinitely.

A positive figure in column 10 implies that expenditures in a full-employment year will exceed the full-employment gross national product itself. Balance cannot be brought about by increasing real output, since there is supposedly full employment at the lower level, but only by increasing money prices. A positive value in column 10, therefore, is an indication of inflationary pressure under full employment conditions.

BUSINESS INVESTMENT—THE KEY FACTOR

Disagreement between the optimists who anticipate the maintenance of full employment without abnormal Government spending and the pessimists who do not is concentrated on capital investment (column 7 of Table 3), particularly on its chief component, business expenditures for plant, equipment, and inventories (column 5). To maintain full employment, all economists agree, these figures must be high; they disagree on the height which will be reached in practice.

Optimists base their optimism on estimates of total capital formation at full employment running as high as 40 per cent above even mid-1946 levels—35 as against 25 billion dollars. Pessimists expect figures at and below 25 billion dollars, which would be remarkably high in view of historical precedents. To make the problem more complex, the statistical relation between national product and capital formation in the past has not been simple or consistent. It is, therefore, impossible in the present state of economic science to state that any estimate is right (or wrong) on the basis of an irregular and inconclusive historical record.

CONCLUSIONS

Professor J. M. Clark of Columbia University has referred to "the game of estimating how big the national income will have to be, and how much we shall have to spend on consumption and capital outlays . . . in order to give everybody a job, two or three years after final victory," and concluded: "The reader may use any of the estimates he likes; they all alike call for a great deal more income than the country has ever produced before in peacetime. . . . On the conservative side, . . . at least 20 per cent more real income per capita than we ever enjoyed before the war."³ This is the basic conclusion to be drawn from the studies reviewed here; full employment will be a major and uncertain result of economic activity, not the necessary and inseparable by-product that some have supposed. But on the other hand, consider the 1919-29 record after World War I. At the peak of the postwar boom of 1919, gross national product was 77.5 billion dollars. Nobody forecast a 28 per cent increase within ten years, yet the 1929 figure of 99.4 billion dollars is over 28 per cent higher in money terms, and was reached at substantially lower prices. Do any of the estimates of full employment, 1950 model, seem more visionary today than 1929 would have seemed in 1919?

³J. M. Clark, "Financing High-Level Employment," in *Financing American Prosperity: A Symposium of Economists*, (Twentieth Century Fund, New York, 1945), p. 77.

FEDERAL FINANCIAL OUTLOOK

(Continued from Inside Front Cover)

above were drastic cutbacks in other expenditure items, including agricultural subsidies, public works, and social security benefits. Estimated aid to agriculture was reduced by 700 million dollars, most of which reflected a decline in food subsidies effected through the new OPA law. The general public works program was reduced by a similar amount and will involve the postponement of some projects which might compete with the veterans' housing program as well as adding to already strong inflationary pressures. The failure of Congress to enact proposed social security legislation, for which allowances were made in the January budget, accounts for the 400 million dollar reduction in estimated costs of social security. The President recommended that general Governmental expenditures also be cut by 10 per cent.

Although the budget estimates still indicate a deficit for fiscal 1947 on an accounting basis, cash receipts from the public will exceed cash payments to the public by 2.8 billion dollars, whereas a cash deficit of 2.4 billion dollars was anticipated in January. This means that there will actually be an absorption of purchasing power by the Government which will have a counter-inflationary effect on the economy. Cash payments to the public, which will total 39.9 billion dollars, exclude intra-governmental transfers and non-cash outlays such as the terminal leave bonds, the payment in notes to the International Monetary Fund, and accruals which will not require cash disbursements until future years. Cash receipts other than borrowing, which include receipts of trust accounts not counted in the budget resume, will amount to 42.7 billion dollars.

Approximately 1.2 billion of cash expenditures to meet the dollar requirements of the International Fund will be disbursed from the Exchange Stabilization Fund balance, which is not included in the Treasury cash balance. With adjustment for this factor the excess of cash receipts over cash expenditures in Treasury cash balance will amount to 4 billion dollars. Together with the estimated reduction of 10.8 billion in the cash balance, this would indicate a net repayment of 14.8 billion of Government securities held by the public during the fiscal year.

DEBT RETIREMENT PROSPECTS

Better-than-expected budget results for the fiscal year 1946 made possible a marked acceleration of the debt retirement program over the amount indicated by the January estimates. The deficit of 20.7 billion dollars for fiscal 1946 was almost 8 billion less than had been forecast earlier, reflecting receipts which were 4.4 billion higher and expenditures 3.5 billion lower than were expected in January. Funds which had been earmarked for covering current deficits could thus be used to reduce the debt. The gross public debt declined from a peak of 279 billion dollars at the end of February to 269 billion on June 30—smaller by 2 billion than the target set for the close of the current fiscal year. Moreover, the cash balance was drawn down by approximately 2 billion less than the amount scheduled. By June 30, 1947, the new

estimates indicate that the debt will decline to 261 billion.

In the first six months of 1946 the Treasury's cash balance declined from 26 billion to 14 billion, most of which was used to retire Treasury securities. Since the redemption program was started in March, approximately half of the 30 billion dollars of maturing or callable issues have been paid off in cash. Table 2 shows the progress of the redemption program to date. Every issue which has matured or become callable since February 28 has been retired either in part or in its entirety. As is apparent from the tabulation, the securities bearing coupon rates higher than $\frac{7}{8}$ per cent have been paid off in full with the exception of the .90 notes of July 1 which were, in effect, a part of the certificate series maturing on the first of each month. The portion of that issue not redeemed in cash was refunded into new one-year certificates as were the unpaid portions of the maturing certificates. All of the relatively small amount of May 1 certificates were paid off in cash.

Since June 30, the Treasury has already paid off in cash $5\frac{1}{4}$ billion of maturing marketable issues. On the assumption that the cash surplus and the reduction in the general fund balance will provide 14.8 billion dollars for debt retirement, 9.5 billion still remains for cash pay-offs during the rest of the fiscal year.

Slightly more than 36 billion of marketable issues will mature before the close of fiscal 1947. Of this total, certificates comprise 31 billion, and the remainder is in the form of Treasury notes—3 billion $1\frac{1}{2}$ per cent notes of December 15, 1946, and 2 billion $1\frac{1}{2}$ per cent notes of March 15, 1947. If the Treasury continues to redeem these securities at an over-all rate of roughly 50 per cent of the amount outstanding and if no new securities are offered in the meantime, the cash balance available for retirement purposes would be exhausted after the January 1 certificate maturity. Since a part of the expected cash surplus will not become available to the Treasury until the March income tax payments are made, a portion of the retirement may have to be postponed until after that time.

The amount of marketable issues redeemed will, of course, depend on the sales and redemptions of savings bonds and tax notes. An excess of redemptions over sales would mean that a smaller balance will be available for the redemption of the marketable securities.

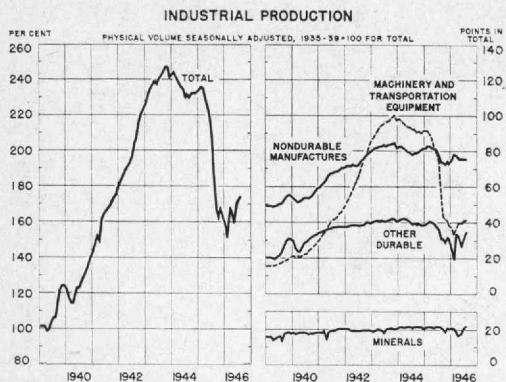
TABLE 2
FEDERAL DEBT REDEMPTION, MARCH 1
THROUGH SEPTEMBER 1, 1946

(Amounts in millions of dollars)

Date	Issue	Amount Maturing or Called	Amount Redeemed in Cash	Per Cent of Total Retired
Mar. 1	$\frac{7}{8}$ % Certificates of indebtedness	4,147	1,000	24.1
Mar. 15	1 % Treasury notes.....	1,291	1,291	100.0
Mar. 15	$3\frac{3}{4}$ % Treasury bonds (1946-56)	489	489	100.0
April 1	$\frac{7}{8}$ % Certificates of indebtedness	4,811	2,000	41.6
May 1	$\frac{7}{8}$ % Certificates of indebtedness	1,579	1,579	100.0
June 1	$\frac{7}{8}$ % Certificates of indebtedness	4,799	2,000	41.7
June 15	3 % Treasury bonds (1946-48)....	1,036	1,036	100.0
June 15	$3\frac{3}{4}$ % Treasury bonds (1946-49)....	819	819	100.0
July 1	.90 % Treasury notes.....	4,910	2,000	40.7
Aug. 1	$\frac{7}{8}$ % Certificates of indebtedness	2,470	1,250	50.6
Sept. 1	$\frac{7}{8}$ % Certificates of indebtedness	4,336	2,000	46.1
	Total.....	30,687	15,464	50.4

NATIONAL SUMMARY OF BUSINESS CONDITIONS

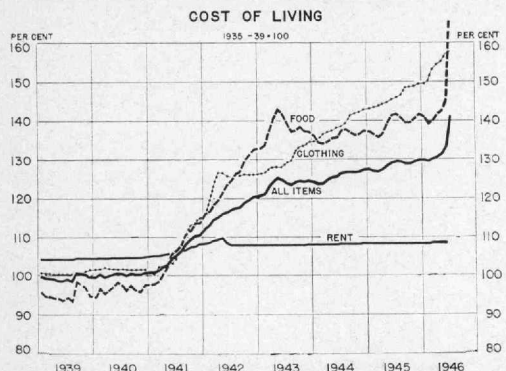
BY BOARD OF GOVERNORS OF FEDERAL RESERVE SYSTEM



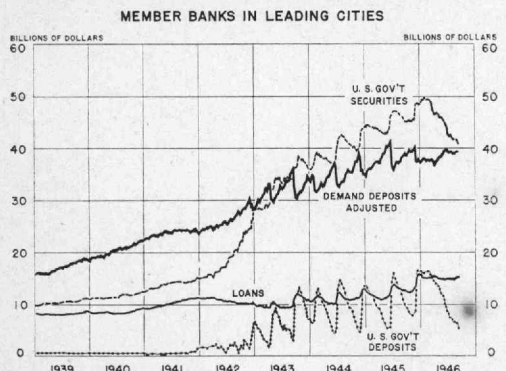
Federal Reserve indexes. Groups are expressed in terms of points in the total index. Monthly figures, latest shown are preliminary for July 1946.



Federal Reserve indexes. Monthly figures, latest sales figures shown are preliminary for July 1946, latest stock figures shown are for June 1946.



Bureau of Labor Statistics' indexes. Last month in each calendar quarter through September 1940, monthly thereafter. Mid-month figures, latest shown are for July 1946.



Demand deposits (adjusted) exclude U. S. Government and interbank deposits and collection items. Government securities include direct and guaranteed issues. Wednesday figures, latest shown are for September 4, 1946.

Industrial production increased somewhat further in July, after a sharp advance in June. Prices of commodities rose rapidly in July and continued to advance, although at a more moderate rate, in the first three weeks of August.

Industrial Production—Industrial production advanced from 171 per cent of the 1935-39 average in June to 174 in July, according to the Board's seasonally adjusted index. Output of durable goods and of minerals generally increased while output of nondurable manufactures as a group showed little change, with increases in some lines offset by declines in others.

Production at steel mills in July rose about one-sixth and in August has increased somewhat further, with output of ingots increasing to about 90 per cent of capacity. Activity in the machinery and transportation equipment industries continued to advance in July. Production in the nonferrous metal industries rose again but was still about 7 per cent below the January level. Output of stone, clay, and glass products continued to increase and the July index, at 197, was well above the previous high in March, with an increase in production of glass containers accounting for most of the July advance. Lumber production showed a decline, owing in large part to vacations for lumber workers on the Pacific Coast in the early part of July. Activity in the furniture industry remained at about the June rate.

In the nondurable industries, production at textile mills declined, owing to worker vacations during the first week in July, while output of manufactured food products increased considerably. Meatpacking rose sharply to the highest level since February and there were increases also in the output of flour, bakery goods, and dairy products. Sugar meltings declined. Output of paperboard and paper boxes declined from recent high levels while newsprint consumption showed a further advance. Activity in the chemical and rubber industries showed little change.

Mineral production rose to a new high 46 per cent above the 1935-39 average. Increases in the output of anthracite, copper ore, and iron ore accounted for most of the July rise in production of minerals.

Construction—Value of construction contracts awarded, as reported by the F. W. Dodge Corporation, declined further in July, but was still more than twice the prewar average. The drop reflected a continued decline in residential awards to a level about two-fifths below the May peak. Nonresidential building awards increased slightly in July, after a small decline in June.

Employment—Nonagricultural employment continued to rise in July, with major gains in the construction and manufacturing industries and some decrease in government employment. Total unemployment decreased to about 2.3 million in July, the lowest of the year.

Distribution—Value of department store sales declined less than seasonally from June to July and the Board's adjusted index rose to 278 per cent of the 1935-39 average as compared with an average of 254 for the first six months of the year. In the first three weeks of August sales continued at a high level. As a result of large receipts of merchandise, value of department store stocks continued to increase in July but relative to sales was still lower than before the war. Unfilled orders were at an exceptionally high level.

Loadings of railroad freight increased further in July as shipments of livestock and grains and of ore and coke rose sharply and shipments of other classes of freight showed little change.

Commodity Prices—Commodity prices, which had advanced sharply in July, rose somewhat further in the first three weeks of August. There were increases in prices of textiles, house furnishings, and fuels as well as in some farm products and foods. Grains, however, declined and corn future contracts were still substantially below cash quotations, reflecting the continued prospect of a large harvest. With the renewal of price control at the end of July, ceiling prices were re-established but in many cases at higher levels than prevailed on June 30. Announcement was made that ceilings would not be re-established at this time on most grains or on dairy products but would be on livestock and meats and on cottonseed and soybeans and their products.

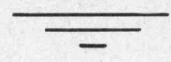
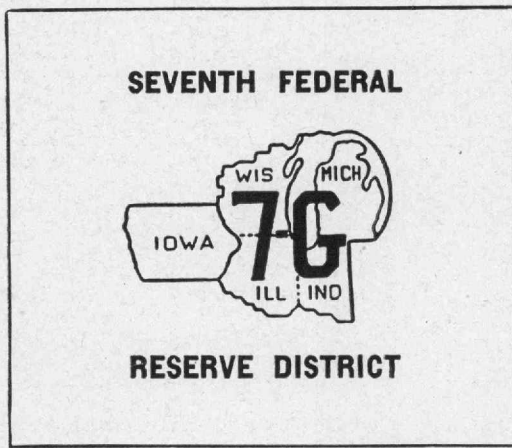
Bank Credit—The Treasury retired for cash 3.3 billion dollars of Government securities during July and early August; war loan balances at commercial banks were reduced by approximately the same amount. As most of the securities were held by banks, retirement operations had little effect on deposits of businesses and individuals. Drains on bank reserves resulting from redemption of securities held by the Reserve Banks were met by System purchases of Government securities and by reductions in Treasury deposits. Need for reserve funds resulted also from an increase in nonmember balances at the Reserve Banks, reflecting the deposit of the first installment of the British loan, and from some outflow of currency into circulation. Changes in required and excess reserves, on the average, were negligible.

As a result of the Treasury debt retirement operations as well as security sales to the Reserve Banks in connection with reserve adjustment Government security holdings at banks in 101 leading cities were reduced by an additional two billion dollars during the seven weeks ended August 14. Total loans for purchasing or carrying Government securities declined further to a level comparable to that which prevailed prior to the Victory Loan Drive. Commercial loans, both in New York City and outside, increased substantially over the period.

FEDERAL RESERVE BANK
OF ST. LOUIS

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