



# Business Trends

Prepared by the Research Department of the  
**FEDERAL RESERVE BANK OF CLEVELAND**  
 Serving the Fourth Federal Reserve District

## THE MAINSPRING OF THE POSTWAR BOOM

The sudden resumption of Communist military aggression, on the far side of the Pacific, has demonstrated anew the sensitivity of economic conditions in this country to changes in the international situation. It underscores the difficulty of making a sound diagnosis of domestic business prospects without looking into every corner of the globe. Indeed, the agitated history of the postwar period to date suggests that the military intelligence units of the armed forces have been in a more advantageous position than have civilian observers, to forecast the potential demands that might be made upon our economy as a consequence of Soviet strategy.

Three years ago, the touch-and-go crisis in the Eastern Mediterranean area created an air of grave suspense which did not subside for months. Two years ago both the Red coup in Czechoslovakia and the Berlin blockade generated successive waves of acute uncertainties. Last year it was the over-running of China that posed innumerable questions, both political and economic in nature. And now the scene has shifted to Korea.

Whether this latest flare-up means that World War III has already started, or whether this country's dramatic response will put out the fire, is the

only important consideration at the moment. Perhaps the answer will have emerged by the time these comments appear in print.

In the event that this latest international crisis leads into full-scale warfare, any appraisal of the business outlook in the conventional sense would be pointless because the exigencies of the situation would undoubtedly require an almost complete abrogation of economic freedom. This discussion, however, is predicated on the assumption that this government's minimum military objectives, as authorized by the United Nations, will come close enough to realization to force a postponement, if not complete abandonment, of a more serious threat by the enemies of democracy. Under such hypothetical circumstances the unfavorable domestic economic factors could be expected to register their influence in the traditional direction if not to the customary degree.

In this connection, it must be recognized that the real mainspring of the business boom, which has held sway almost without interruption for more than four years, has *not* been the unanticipated high rate of expenditures for national defense and foreign aid, but rather the unparalleled spending program carried out by in-

*Broadcast by Merle Hostetler, Manager, Research Department, Federal Reserve Bank of Cleveland, over WGAR, Cleveland, with Jim Martin, Morning News Editor, WGAR, Saturday, July 1, at 9:15 a.m.*

dividuals and business enterprises with funds borrowed from institutional and other lenders and savers.

The millions of houses that have been built since the war, the record volume of household appliances and furniture that has been produced and sold, the tidal wave of motor vehicles that has rolled off the assembly lines, and the unprecedented peacetime industrial expansion that has occurred, have not been paid for out of past earnings, but have involved an unsurpassed volume of borrowing. From 1945 to the present time, personal and corporate debt has been expanding at the rate of nearly \$20 billion per year.

The load of private indebtedness which has been incurred since the war does not yet represent a visible burden, partly because of the abnormally low level to which such commitments had been reduced in 1945, and partly because it is not yet so large in terms of the gross national product as on several occasions in the past.

Nevertheless the postwar expansion of private debt (as distinguished from the Federal debt) has reached a point where some slowing down in the rate of growth may not be far away. And a mere slowing-down in the rate of debt creation could have a noticeably adverse effect upon business. The economy has become accustomed to a consistently strong demand for goods and services—a demand which has been made effective only through the extensive use of borrowed money. When this record rate of new borrowings begins to taper off, if for no other reason than that a constantly growing private debt entails an increasing charge against current income, business can be expected to reflect such a change, even though total indebtedness might still be increasing.

Barring the outbreak of full-scale war, it seems logical to assume that the first signs of a slowing down in the rate of growth will appear in the field of consumer instalment credit, because this type of commitment appears to be relatively the closest to what may prove to be an effective ceiling, in terms of disposable personal income. There are valid grounds for suspecting that the over-all increase in such indebtedness in the next twelve

months may fall short of the record \$2.7 billion gain since a year ago.

It is similarly questionable whether borrowing by industrial concerns and public utilities for enlargements and improvements will be as extensive as in the past several years, unless the present emergency leads directly to open hostilities.

Borrowing by individuals for the purpose of purchasing homes may continue at the existing pace for perhaps another two or three years but here, too, periodic amortization requirements are growing larger day by day, and are equivalent to an increasing percentage of new loans made.

The potential decline in private demand for credit conceivably may be offset, in whole or in part, by an increase in public borrowing, not only by the Federal government for increased national defense expenditures, but also by states, cities and other local political subdivisions whose borrowings for public facilities have been quite moderate in comparison with the scale prevalent during the 'Twenties. At present, state and municipal indebtedness is only a trifle larger than in 1932-3, when the financial dimensions of the economy were less than one-fourth the present proportions, which suggests that at least one important area of credit expansion is still available for exploitation.

Nevertheless, aggregate indebtedness on all but Federal account is now once again nearly as large as the war-swollen public debt, and the prospects for continued growth at the present rate is accordingly diminished. It may be of some merit, however, to recognize that in the event of the outbreak of global warfare, the record level of private indebtedness does not necessarily represent a handicap to wartime finance. In fact an acceleration in the rate of repayment of private debt would provide a noninflationary outlet for funds which otherwise would converge on the market for a sharply limited supply of civilian goods. While this clearly would be in the interest of all consumers in the aggregate, the most rapid reduction of private debt conceivable would not suffice to stem the inflationary consequences of sustained wartime spending.

**Additional copies of "Business Trends" are available upon request.**