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THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

THE FEDERAL BUDGET

The new budget sent to Congress last month calls for expenditures of $72 billion and receipts of $55 billion in fiscal year 1952. Once adopted, the Federal budget becomes our financial program. We should study it carefully. Fiscal policy is our main weapon for combating inflation. Defense production adds to incomes but not to the supply of civilian goods for these incomes to buy. Taxation is the best means of siphoning off this excess income, and of closing the inflation gap. Economies in non-defense spending would help reduce total demand and free resources for defense production.

CURRENT TRENDS

Greater business activity in December reflected vigorous consumer buying and expanding production for defense.

THE FEDERAL BUDGET

Seventy-two billion dollars is big money. That is the estimated cost of running the Federal Government in fiscal year 1952 beginning next July, according to the budget message the President sent to Congress last month. Seventy-two billion dollars would pay for over 7 million houses costing $10,000 each; it is more than twice the amount of money all of the farmers of the country received last year.

The Federal budget, as finally adopted, will be *our* financial plan for the coming year because in a democracy, government is the instrument of the people. The budget shows how much we are planning to pay into the Federal Government and how much via government we are planning to spend for a variety of services and activities. The primary purpose of this article is to present an analysis of the new budget and to take up briefly some of its economic implications.

A few words about the development of our budget system and the purposes it was designed to accomplish may be helpful. The present system was developed as a device to give Congress more effective control over the financial operations of the Government. What the budget is expected to do can be made clear by an illustration. At one of the Cabinet meetings when James Monroe was President, over one hundred years ago, the Attorney General asked for a raise in salary, an office, and a clerk. He suggested that the President make such a recommendation to Congress. To make a wise decision, the President felt that it would be necessary to first appraise the situation in other departments so that he could make a recommendation that would cover all departments in an adequate manner. This informal method of weighing departmental needs individually and in relation to each other was feasible a century ago when the Government's financial transactions totaled only a few million dollars a year. It would not be at all suitable today, however, with Federal Government activities totaling many billions of dollars annually.

Before the present budget procedure was put into effect each department of the Government made its own estimates and submitted them to a Congressional committee which had supervision over the financial operations of a particular department. Because of the confusion and lack of control which resulted from several disconnected and uncoordinated budgets being submitted to different committees of Congress, the procedure was finally revamped in 1921 and the President was given the responsibility of preparing annually a single budget of estimated revenues and expenditures covering all of the agencies and activities of the Federal Government.

The Federal Government makes up its budget for a fiscal year beginning July 1 and ending June 30, instead of for the calendar year. Fiscal year 1952, for example, begins July 1, 1951 and ends June 30, 1952. Many corporations also use a fiscal year which does not coincide with the calendar year. To avoid needless repetition in this article, the term "year" will refer to fiscal year unless otherwise stated.

Preparation of the budget involves several steps. First, the Bureau of the Budget asks each department and agency to submit an estimate of the amount of funds it will need for the coming year. Usually, these requests go out in June for the fiscal year beginning over twelve months later. Second, the budget officer in each department gets estimates from those in charge of the various subdivisions, of their needs for that year. After numerous consultations, these estimates are reviewed, revised, and whipped into a budget for the department or agency, which is then submitted to the Bureau of the Budget. Departmental estimates are usually sent to the Bureau some time in September. Third, the Bureau of the Budget then begins an intensive analysis and review of the estimates for each department and agency. One important job is to see whether the requests are consistent with Congressional intentions, reflected in existing laws. For example, once legislation is passed setting up a new service or adding new functions, it becomes a mandate which must be translated into financial terms. Fourth, the Bureau of the Budget combines the departmental and agency estimates into a national budget which is submitted to the President for his consideration and review. Fifth, the President submits his budget recommendations to the Congress at the beginning of the calendar year. Sixth, Congressional committees and subcommittees review the budget carefully, conduct hearings, and the various bills which emerge are analyzed and debated on the floor of both the House and the Senate. Both appropriation and revenue bills must be passed by Congress, and approved by the President or passed over his veto before becoming our adopted financial program.

In this brief description of the preparation of the budget, two things stand out clearly. One is that the expenditure estimates of all of the Government departments and agencies are analyzed and reviewed carefully within the department, by the Bureau of the Budget, by the President, by the appropriation committees in Congress, and finally on the floor of the House and the Senate before final adoption. The second is that although the President has the responsibility for initiating and recommending a sound financial program, final responsibility for both tax and other revenue measures and appropriation bills rests with the Congress.

ANALYSIS OF THE NEW BUDGET

The budget submitted by the President gave actual receipts and expenses for fiscal year 1950, revised estimates for 1951, and recommendations for 1952. This information makes it possible not only to analyze the recommendations for 1952 but also to compare them with actual receipts and expenditures in 1950. We shall first consider budget receipts and expenditures, and then some of the economic implications of the new recommendations.

Budget Expenditures

Authority to spend must be granted by Congress before funds can be paid out. Total authorizations give the amount the Government has permission to spend, and budget expenditures show the amounts actually spent or to be spent in a given year.

Some appropriations are permanent and do not require action by Congress each year; some are available for two or more years; and some are available without time limit. The sum of all authorizations less amounts earmarked for the liquidation of previous contract authorizations is the new authority of the Treasury to incur financial obligations.

New authorizations in the budget amount to $87.4 billion for 1951 and $94.4 billion for 1952—a two-year total of $182.8 billion. Of this total, $77 billion has been authorized for 1951, the remainder being only a budget recommendation. The major part of the new authorizations is for primary defense—$115 billion being for military services and $20 billion for international security and foreign relations.

There is usually a considerable time lag between authorization and expenditures. In part, this time lag reflects authorizations covering a period of more than one year; in part, it reflects the time consumed in making plans, letting contracts, and in the actual production of the materials and equipment to be purchased. Estimated expenses for 1951 and 1952 total $119 billion, as compared to new authorizations of $182 billion.

NEW OBLIGATIONAL AUTHORITY

(Fiscal years—in billions of dollars)

Function	1951 Enacted and proposed	1952 Recommended and proposed	Total
Military services	54.2	61.0	115.2
International security and foreign relations	9.0	11.0	20.0
All other	24.2	22.4	46.6
Total new obligational authority	87.4	94.4	181.8

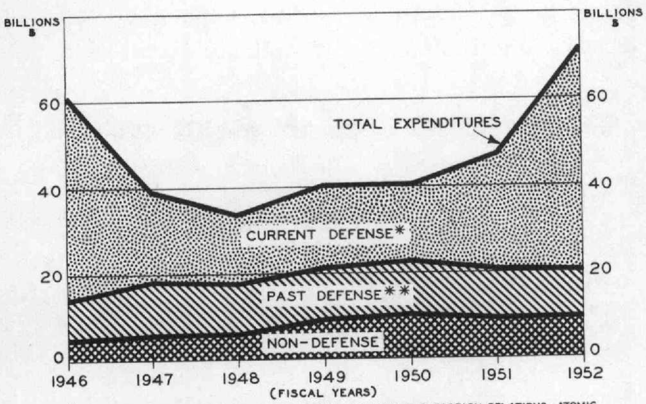
BUDGET EXPENDITURES BY MAJOR PURPOSES

(Fiscal years—in billions of dollars)

Function	1950 (actual)	1951 (estimated)	1952 (estimated)	Change 1950 to 1952
Military services........	12.3	21.0	41.4	+29.1
International security and foreign relations	4.8	4.7	7.5	+ 2.7
Finance, commerce, and industry	0.2	0.4	1.5	+ 1.3
Transportation and communication	1.8	2.0	1.7	— 0.1
Natural resources	1.6	2.1	2.5	+ 0.9
Agriculture and agricultural resources	2.8	1.0	1.4	— 1.4
Social security, welfare, and health	2.2	2.5	2.6	+ 0.4
Veterans' services and benefits	6.6	5.7	4.9	— 1.7
Interest on debt........	5.8	5.7	5.9	+ 0.1
All other	2.1	2.1	2.2	+ 0.1
Total budget expenditures	40.2	47.2	71.6	+31.4

According to the budget, the cost of running the Government will rise from $40 billion in 1950 to nearly $72 billion in 1952. The increase is almost entirely for current defense purposes—an increase of $29 billion for military services, $2.7 billion for international security and foreign relations, over $700 million for atomic energy, and $1.7 billion for promotion of defense production, civil defense, and price, wage, and similar controls. The estimates for military services are designated as tentative, with more detailed estimates to be sent to Congress later. However, the large increase in this category is to go primarily for three purposes. The major part will be used to supply the armed services with modern equipment such as planes, tanks, electronic equipment, and rockets. Funds are requested also to build up reserves of equipment and strategic materials should larger forces become necessary. Second, more funds will be required to feed, clothe, house, and train the growing numbers in the armed forces. Third, additional funds are requested for developing our productive capacity so that we can move rapidly into full mobilization if necessary. For example, current plans call for developing industrial capacity sufficient to turn out 50,000 planes and 35,000 tanks a year.

DEFENSE AND NON-DEFENSE EXPENDITURES



*INCLUDES: MILITARY SERVICES, INTERNATIONAL SECURITY AND FOREIGN RELATIONS, ATOMIC ENERGY, AND PROMOTION OF DEFENSE PRODUCTION AND ECONOMIC STABILIZATION.
**INCLUDES: INTEREST AND VETERANS' SERVICES AND BENEFITS.

International security and foreign relations will take $7.5 billion in 1952 as compared to $4.8 billion actually spent in 1950, most of the increase being for military and economic aid to build up mutual defense forces. It is estimated that more than one-half of the total will go for military equipment to be shipped from this country to our allies. Also included is a request for an increase of $1 billion in the lending ceiling of the Export-Import Bank, in part to help expand the output of defense materials in foreign countries.

Promoting an expansion in defense production and the cost of administering controls to guard against inflation will take about 90 per cent of the funds requested for finance, commerce, and industry. To help increase defense production, the Government is making direct loans, participating in loans made by private lenders, and purchasing and installing Government-owned equipment in defense plants. The cost of the stabilization program, including allocations, price, wage, rent, and export controls, is estimated at about $300 million for 1952. The cost of natural resource development in 1952 is about $1 billion greater than in 1950, primarily because of increases of over $700 million for atomic energy and over $200 million for the Tennessee Valley Authority.

The cost of past wars is still reflected in substantial payments to veterans and in interest on the Federal debt. The cost of veterans' services and benefits is gradually declining as the number taking advantage of educational benefits decreases. The drop from 1950 to 1952 is about $1.7 billion. Interest on the debt is expected to show only a slight increase.

The cost of non-defense activities is expected to drop about $1 billion from 1950 to 1951 and continue at about the same levels for 1952. Additional funds will be required for social security, welfare and health services. Practically all of the increase results from amendments to the Social Security Act last year, which extended the coverage to about 10 million additional workers, raised benefit payments, relaxed eligibility requirements for older people, and provided more liberal public assistance. A request of $164 million for new buildings and accommodations to facilitate the dispersal of Government offices in the Washington area is the chief reason for a rise in general Government expenses. The cost of the Government's farm program is expected to decline primarily because the general rise in prices automatically reduces the cost of supporting the price of agricultural products. The cost of the agricultural price and income stabilization program is expected to drop from $1.6 billion actually spent in 1950 to $238 million in 1952.

The trend in non-defense spending has been upward in the post-war period, rising from $4.7 billion in 1946 to $10 billion in 1950. Agriculture and agricultural resource expenditures rose about $2 billion from 1946 to 1950, due primarily to the cost of the farm price stabilization program. Expenditures for the development of other natural resources, excluding atomic energy, have also risen sharply, the largest increase being for the conservation and development of land and water resources. The cost of the social security, welfare and health programs has more than doubled, mainly because of the rise in public assistance payments. In the field of transportation and communication, aid to navigation, to aviation, for highways, and a subsidy for the postal service have lifted expenditures to more than double the level of 1946. The sharp rise in non-defense expenditures during the post-war period reflects both rising prices and costs, and an extension of Government services.

Budget Receipts

So much for what we plan to spend. The next question is, where is the money coming from—a question which will be of growing concern as the tax bills come in.

The Treasury prepares estimates of receipts for the coming fiscal year usually in December. The budget estimates prepared this year are based on existing rather than proposed legislation. They also assume continued high levels of production, employment, and income.

BUDGET RECEIPTS BY MAJOR SOURCES

(Fiscal years—in billions of dollars)

Source	1950 (actual)	1951 (est.)	1952 (est.)	Change 1950 to 1952
Income tax				
Individuals	17.4	21.6	26.0	+ 8.6
Corporations	10.9	13.6	20.0	+ 9.1
Excise taxes	7.6	8.2	8.2	+ 0.6
Employment taxes	2.9	3.8	4.7	+ 1.8
Miscellaneous receipts	2.6	2.6	2.8	+ 0.2
Total budget receipts	41.3	49.8	61.7	+20.4
Deduct:				
Appropriations to Federal Old-Age and Survivors Insurance Trust Fund	2.1	3.0	3.8	+ 1.7
Refunds of receipts	2.2	2.3	2.7	+ 0.5
Net budget receipts	37.0	44.5	55.1	+18.1

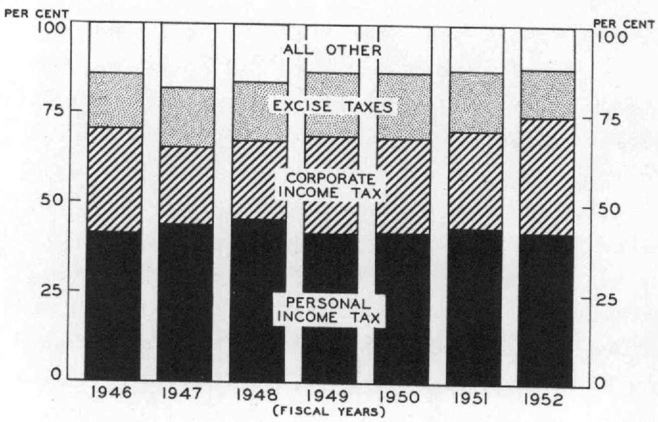
Note: Detailed figures do not necessarily add to totals because of rounding.

Budget receipts of $37 billion in 1950 are expected to rise to $55 billion in 1952. This increase, however, falls short of bringing receipts up to estimated expenditures by $16.5 billion. The President has recommended, however, that new taxes be levied to eliminate the deficit thus putting the Government on a pay-as-we-go basis. In a supplemental message to Congress, the President proposed a prompt increase in personal income taxes to yield $4 billion, in corporate income taxes to yield $3 billion, and in excise taxes to yield $3 billion. Later in the year legislation should be enacted to yield whatever additional revenue is needed to balance the budget.

The $18 billion jump in receipts from 1950 to 1952 reflects primarily a rising level of income and employment, and tax increases levied last year. The major part of the additional income is derived from income taxes. Receipts from the personal income tax are expected to rise over $4 billion each in 1951 and in 1952. Both rising wage rates and employment have resulted in larger salary and wage payments, thus enlarging the income tax base. A second reason for the additional revenue is the higher tax rates imposed on personal incomes by the Revenue Act of 1950, which take a larger bite out of a given income. These higher rates which applied to only a part of 1951 incomes will be effective for all of 1952. The tax on corporate income, also raised, is expected to yield about $9 billion more than in 1950.

Employment tax receipts from Federal Old-Age Insurance, unemployment, and similar social security taxes are expected to increase nearly $2 billion. Rising wage rates, expanding employment, and amendments to the Social Security Act swell this source of income. The tax rates on both employer and employee rose from 1 per

BUDGET RECEIPTS — 1946-1952



cent to 1½ per cent on January 1, 1950. The maximum tax base was raised from $3,000 of income to $3,600, effective January 1, 1951, and coverage was extended to include a larger number of employees. Both of these changes will enlarge the proceeds of employment taxes;

however, only a small part of this income, that not appropriated to the Federal Old-Age and Survivors Insurance Fund, can be used for general expenses. As a result, only a small part of the enlarged income from employment taxes will go into net budget receipts available for general expenses.

ECONOMIC IMPLICATIONS OF THE BUDGET

A Federal budget of $50-75 billion exerts a tremendous influence on both the flow of income and the flow of goods and services. Treasury operations influence buying power because receipts take funds out of the income stream and payments put them back. In addition to their influence on total buying power, Treasury operations affect the distribution of income and therefore the pattern of demand for goods and services.

In view of the influence of Treasury operations on economic activity, the new budget should also be analyzed in relation to the economic goals we are striving to achieve. These goals for the prolonged period of rearmament and military readiness which lies ahead are: (1) to supply a much larger quantity of goods and services for national defense; (2) to maintain economic stability by restraining the excessive demand which enlarged defense production tends to create; and (3) to distribute the defense burden as equitably as possible.

Cash Income and Outgo

Budget receipts and expenditures do not show the real impact of Treasury operations on the economy. This impact is determined by the flow of cash in and out of the Treasury. Cash receipts drain funds away from the public. Both bank deposits and bank reserves are reduced when the checks received by the Treasury are collected. Cash payments, on the other hand, put funds back into the income stream. They add to deposit balances and bank reserves. If the Treasury pays out more than it takes in, the tendency is to add to incomes and the effect is inflationary. If the Treasury takes in more than it pays out, total buying power is reduced and the effect is deflationary. When cash receipts and payments are in balance, total buying power is unaffected because Treasury payments return as much to the income stream as receipts take out.

In the last few years, the budget has contained estimates of cash receipts from and payments to the public. The term public as used here includes individuals, commercial banks, Federal Reserve Banks, business firms, private corporations, state, local, and foreign governments, and international organizations.

There are several reasons why cash receipts and expenditures differ from budget receipts and expenditures. One important reason is that transactions of the trust funds, which are managed by the Government, are not included in budget receipts and expenditures. Cash transactions of the trust funds must be added to get total cash received from and paid to the public. In 1950, for example, trust fund cash receipts totaled about $4 billion and payments about $7 billion, the latter including the national life insurance dividend paid in that year. A second type of adjustment must be made for transactions among Government agencies and between these agencies and the trust funds to get cash receipts from and payments to the public. Examples of these transactions are payments from one Government account to another, such as interest paid to the Treasury on Government funds invested in wholly owned Government corporations; pay-

FEDERAL CASH AND BUDGET TRANSACTIONS

(Fiscal year 1950—In billions of dollars)

Transaction	Budget accounts	Trust accounts	Total
Receipts	37.0	6.7	43.7
Deduct:			
Intragovernmental transactions	0.1	2.6	2.7
Non-cash transactions	(a)		(a)
Income from exercise of monetary authority	(a)		(a)
Total deductions	.1	2.6	2.8
Cash received from public	36.9	4.0	40.9
Expenditures	40.2	6.9	46.6*
Deduct:			
Intragovernmental transactions	2.7	(a)	2.7
Non-cash transactions	.6	(a)	.7
Total deductions	3.3	.1	3.4
Cash payments to the public	36.8	6.8	43.2
Changes in cash balance and borrowing:			
Excess of cash payments over receipts			2.2
Increase in Treasury cash balance			2.0
Net cash borrowing from the public			4.2
Total cash receipts from the public, including net borrowing	(40.9 + 4.2)		45.1
Total cash payments to the public			43.2

(a) Amounts less than $100 million.

* Includes a deduction of $483 million for checks outstanding but not yet paid.

ments from the Government to the trust funds, such as the contribution to the Civil Service Retirement Fund; payments from the trust funds to the Government; and payments from one trust fund to another.

Non-cash items are a third category of budget transactions which must be eliminated in converting to a cash basis. For example, interest which accrues on Savings Bonds during the fiscal year is an expense of that year but it will not result in a cash payment until the bonds are redeemed. Treasury securities are sometimes issued in payment of obligations. They represent a budget expense in the year they were issued but do not become a cash expenditure until later when they are redeemed. The Armed Forces Leave Bonds issued in 1947 and the non-interest bearing notes issued to pay the subscription of the United States to the International Bank for Reconstruction and Development are illustrations of this type of non-cash expenditure. Finally, expenditures budgeted for a given year may exceed actual cash payments because production progressed more slowly than had been expected.

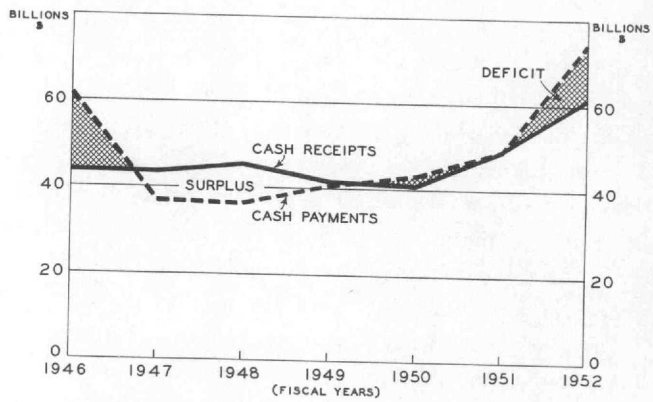
Cash receipts and payments, as estimated from the budget and trust accounts, do not cover the entire cash flow between the public and the Federal Government. If the Government pays out more cash than it takes in, the Treasury must obtain the difference either by drawing on its cash balance or by borrowing from the public or both. If, on the other hand, the Treasury takes in more than it pays out, the surplus may be permitted to increase the cash balance or it may be used to repay some of the Federal debt. To obtain the total flow of money from and to the public, net cash borrowing or net repayment of the debt must be included. The preceding table shows in addition to Treasury cash receipts and payments, net cash borrowing or repayment for 1950.

Net cash borrowing or net repayment of the debt is unlikely to correspond with the actual change in Federal debt outstanding during the fiscal year. For example, the increase in the Federal debt during 1950 was greater than net cash borrowing from the public, primarily because accrued interest added to the total value of Savings Bonds outstanding.

Fiscal year 1946 was a year of transition from a war to a peacetime basis and the Treasury's cash payments exceeded receipts by nearly $18 billion. During the next three years, fiscal policy was an anti-inflationary force as the Treasury took in more cash than it paid out. The cash surplus reached a peak of nearly $9 billion in 1948. Thereafter, the excess of cash income over outgo declined and in 1950 there was a deficit of over $2 billion. Revised estimates show cash income and outgo approximately in balance for the current fiscal year. For 1952,

TREASURY CASH INCOME AND OUTGO

1946-1952



however, a deficit of nearly $13 billion is estimated on the basis of existing legislation. Unless this excess of cash payments is made up by new taxes, as recommended by the President, the result will be a substantial addition to money incomes. This increase in demand coming at a time when shortages of civilian goods are increasing would be a strong inflationary force.

Vigorous steps to restrain demand will be necessary if we are to hold down the inflationary pressures created by the defense program. Defense production adds to incomes without adding to the supply of civilian goods for these incomes to buy. In addition, the defense program has created an atmosphere which has been conducive to borrowing and buying in anticipation of shortages and higher prices. Expanding production cannot close this inflation gap because all production generates income but only a part of the output is available for civilian purchase. Balance between money and goods can be maintained only by diverting income as well as goods to defense.

Taxation is the major fiscal weapon for attacking the inflationary pressures created by the defense program. It goes right to the source of the trouble by drawing excess purchasing power away from civilian markets.

The sale of Government securities to non-bank holders also siphons off purchasing power; but it leaves the buyers with securities which can easily be converted into cash. Borrowing, even from non-bank buyers, builds up potential purchasing power in the form of Government securities which may create an inflation problem later. Tax receipts, on the other hand, cannot be used to buy goods; neither do they represent a debt which must be paid off later by taxation.

The real burden of the defense program is in the larger quantity of goods and services which must be turned over to the Government. The inevitable result is less goods for civilians regardless of whether we turn enough of our income over to the Government to pay for them. The real burden cannot be postponed. There is no question but that we can afford to pay as we go, especially for a partial mobilization effort. The new taxes do not create the burden; they merely reflect the amount of goods foreign aggression forces us to give up anyway.

Taxation, in addition to being a good tool for holding down total demand, is a suitable instrument for reducing the pressure in selected areas. Since consumers usually take about 80 per cent of the total output of goods and services remaining after Government purchases, taxes must bite into the incomes of practically all consumers to bring an effective reduction in the demand for civilian goods. The job cannot be done by levying more taxes on a small proportion of the population. Excise taxes could be used to reduce the demand for scarce goods, helping to balance demand and supply in these areas.

Purchases of Goods and Services

The impact of the budget in real terms is best indicated by actual Government purchases of goods and services. The major part of the funds siphoned out of the income stream by the Treasury is returned in payment for the goods and services the Government needs.

The budget does not estimate total purchases of goods and services for the fiscal year, but such purchases are nearly always less than the Treasury's cash outgo. In calendar year 1950, for example, cash payments exceeded $41 billion but purchases of goods and services totaled only $25 billion. The Treasury pays out substantial sums which do not go directly for commodities or services. For example, considerable cash is paid out for a variety of social welfare activities, such as public assistance and grants-in-aid. These payments merely result in a transfer of funds from the taxpayer to those who receive the aid. They are not a direct drain on the output of our farms and factories as are Government purchases of goods and services. The payment of interest on the Federal debt, a cash payment of $4.3 billion in 1950, and the direct lending activities of the Federal Government and Government-owned corporations are other types of transfer payments. Treasury cash outlays must be adjusted for transactions such as these to get an estimate of the amount of goods and services the Federal Government will buy.

Estimates of Federal purchases of goods and services in 1951 and 1952 are not yet available. However, the major part of the increase in expenditures recommended for 1952 is for military purposes. It will go for such items as food, clothing, guns, tanks, planes, electronic equipment, and pay for the services of growing numbers in the military services. A large part of the purchases will be channeled into the hard goods industries.

The production problem facing us is to turn out more goods for defense, preferably by increasing total output, but to the extent necessary by diverting manpower, plant, and raw materials from civilian to defense production. The Government's financial policies can help or hinder meeting these production goals.

There is danger, of course, that a heavy tax burden will impair production incentives. Higher taxes tend to reduce the net reward for production. But we must recognize also that other alternatives involve equal if not greater danger of impairing work incentives. If we should rely more on price controls and rationing and less on taxation, money incomes would continue to rise and workers and businessmen would accumulate large quantities of liquid assets, such as deposits and Savings Bonds. Experience has demonstrated that backed-up purchasing power which cannot be used to buy goods results in absenteeism and other forms of reduced effort. Letting inflation take its course also carries perhaps an even greater threat to work incentives. Why work for dollars that will buy constantly decreasing quantities of goods?

Fiscal policies can also help meet the production goals by facilitating the shifting of labor, materials, and plant from civilian to defense production. One important step would be to reduce non-defense spending to a minimum. This would reduce Government demand for such goods and services and release men and material for defense production. Moreover, cutting non-essential Government spending would set an example and encourage the people to make more sacrifices. Excise taxes which would reduce demand for non-essential items is a second step that would help shift production facilities from less essential to more essential uses.

CONCLUSIONS

The Federal budget is necessarily a large and complicated document. It summarizes the financial transactions of the biggest business in the world—our Federal Government. New authorizations and appropriations passed by Congress set up the amount the Government has permission to spend; budget receipts and expenditures show income due and expenses incurred in the fiscal year; and Treasury cash receipts and expenditures show the money flow to and from the public. The budget is really our financial program. We should study it carefully.

The financial program adopted by Congress can help or hinder the achievement of our defense goals. Fiscal policy is our main defense against inflation because defense production creates a gap between money income and the supply of civilian goods. This gap can be closed by a pay-as-we-go policy—by taking as much out of the income stream via taxes as is put into it by expenditures. In fact, a cash surplus would be better so that fiscal policy would help check the inflation which is already under way. To be effective in reducing the general demand for civilian goods, the new taxes must hit all but the lowest income groups. The fact that price and wage controls have recently been introduced does not diminish the need for a vigorous use of fiscal policy to combat inflation. Unless the inflationary pressure is removed, it will soon break through price and wage ceilings or spew out in such forms as black markets, poorer quality goods, and the disappearance of low-price lines.

Production goals will be more easily achieved if the Government's demands for non-defense goods and services are reduced, thus freeing resources for defense production, and if the new tax program is designed so as not to impair work incentives.

CURRENT TRENDS

Economic activity in the Third Federal Reserve District continued at a high pitch in December. Most business indicators, such as department stores sales, bank loans and deposits, factory payrolls, crude oil output, and check payments, registered increases for the month. The outstanding exceptions were manufacturing production, factory employment and construction, which showed no change.

While manufacturing employment and production in Pennsylvania factories were steady in December, this was mainly the result of curtailment of operations in non-durable goods plants. However, durable goods industries continued the expansion begun last summer, with increases of 1 per cent in employment and working time, and 5 per cent in total wages, the gains being in plants producing metals and metal products, machinery, and transportation equipment.

By rising 13 per cent from November, seasonally adjusted department store sales in December exceeded those of the preceding month for the first time since last July. Dollar volume for the month also was 11 per cent above that of a year ago and total sales for the year topped those of 1949 by 6 per cent. Department store managers, with the increased sales activity in mind, continued to maintain their inventories at levels considerably above those of a year ago. Stocks of items such as furniture, floor coverings, television sets and radios, and household appliances were substantial.

Fast rising food prices helped to push the index of consumer prices up 2 per cent during the month. While the consumer was paying 7 per cent more for cost-of-living items than in December of last year, the general level of all wholesale prices had advanced to 16 per cent above that of 1949.

Business loans of reporting member banks in the Third District and in the nation as a whole continued to increase during the first four weeks of January—a period when they usually decline. Investments dropped considerably, reflecting in part sales of Governments to build up reserves to meet the increase in reserve requirements.

The Nation's money supply rose substantially in December with demand deposits climbing for the ninth consecutive month and time deposits advancing for the first time since the Korean crisis.

SUMMARY	Third Federal Reserve District: Per cent change, December 1950 from mo. ago	Third Federal Reserve District: December 1950 from year ago	Third Federal Reserve District: 12 mos. 1950 from year ago	United States: Per cent change, December 1950 from mo. ago	United States: December 1950 from year ago	United States: 12 mos. 1950 from year ago
OUTPUT						
Manufacturing production	0*	+16*	+ 6*	0	+21	+14
Construction contracts	0	+37	+35	− 7	+20	+40
Coal mining	− 5	+25	+ 4	+ 2	+37	+16
EMPLOYMENT AND INCOME						
Factory employment	0*	+11*	+ 3*	0	+13	+ 6
Factory wage income	+ 3*	+28*	+11*	....	....	....
TRADE**						
Department store sales	+13	+11	+ 6	+12	+11	+ 5
Department store stocks	+ 2	+24	....	− 1	+21	....
BANKING (All member banks)						
Deposits	+ 3	+ 7	+ 6	+ 4	+ 7	+ 5
Loans	+ 3	+23	+14	+ 3	+24	+12
Investments	+ 1	− 2	+ 4	+ 1	− 4	+ 4
U. S. Govt. securities	+ 1	− 4	+ 2	+ 1	− 8	+ 1
Other	0	+10	+13	+ 2	+23	+20
PRICES						
Wholesale	....	....	....	+ 2	+16	+ 4
Consumers	+ 2†	+ 7†	+ 1†	+ 2	+ 7	+ 1
OTHER						
Check payments	+10	+12	+17	+13	+18	+14
Output of electricity	+ 4	+13	+ 9	....	....	....

*Pennsylvania
**Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* Employment: Per cent change Dec. 1950 from mo. ago	Factory* Employment: year ago	Factory* Payrolls: Per cent change Dec. 1950 from mo. ago	Factory* Payrolls: year ago	Department Store Sales: Per cent change Dec. 1950 from mo. ago	Department Store Sales: year ago	Department Store Stocks: Per cent change Dec. 1950 from mo. ago	Department Store Stocks: year ago	Check Payments: Per cent change Dec. 1950 from mo. ago	Check Payments: year ago
Allentown	0	+16	+ 7	+ 37	....	....	....	....	+ 8	+24
Altoona	+1	+69	+14	+126	....	....	....	....	+ 7	+25
Harrisburg	−1	+ 8	+ 2	+ 30	....	....	....	....	− 4	+ 9
Johnstown	−1	+13	+ 3	+ 29	....	....	....	....	+ 2	+20
Lancaster	0	+ 7	+ 3	+ 26	+55	+13	−25	+21	+ 2	+16
Philadelphia	+1	+ 8	+ 2	+ 31	+33	+ 8	−22	+22	+12	+11
Reading	−1	+ 7	− 1	+ 23	+49	+ 9	−24	+21	+ 2	+10
Scranton	−2	+12	− 4	+ 18	....	....	....	....	+ 1	+ 6
Trenton	....	....	....	....	+63	+13	−21	+16	− 5	+ 6
Wilkes-Barre	−1	0	− 2	+ 8	+52	+ 7	−19	+26	+ 6	+ 3
Williamsport	+2	+19	+ 2	+ 34	....	....	....	....	+ 4	+14
Wilmington	0	+16	+ 5	+ 36	....	....	....	....	+35	+18
York	−1	+17	0	+ 32	+68	+11	−30	+19	+18	+35

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: Dec. 1950 from month ago	Per cent change: Dec. 1950 from year ago	Per cent change: 12 mos. 1950 from year ago
MANUFACTURING (Pa.)	0	+16	+ 6
Durable goods industries	+ 1	+26	+ 9
Nondurable goods industries	− 1	+ 5	+ 3
Foods	− 3	+ 3	− 1
Tobacco	− 3	+ 7	− 8
Textiles	− 2	+ 3	+ 6
Apparel	− 4	+ 2	+ 3
Lumber	− 1	+ 7	+ 5
Furniture	− 4	+ 9	+27
Paper	0	+13	+10
Printing and publishing	+ 2	+ 1	− 1
Chemicals	+ 1	+13	+ 5
Petroleum and coal products	0	+ 5	+ 2
Rubber	+ 1	+35	+24
Leather	− 1	+ 2	+ 1
Stone, clay and glass	− 3	+15	+ 4
Primary metal industries	+ 3	+30	+19
Fabricated metal products	+ 3	+35	+11
Machinery (except electrical)	+ 2	+33	+ 5
Electrical machinery	− 1	+20	+ 7
Transportation equipment	+ 2	+11	−14
Instruments and related products	− 3	+31	+ 6
Misc. manufacturing industries	− 1	+25	+11
COAL MINING (3rd F. R. Dist.)*	− 5	+25	+ 4
Anthracite	− 5	+27	+ 3
Bituminous	− 1	+27	+11
CRUDE OIL (3rd F. R. Dist.)**	+ 1	+ 6	+ 2
CONSTRUCTION — CONTRACT AWARDS (3rd F. R. Dist.)†	0	+37	+35
Residential	+ 3	+48	+68
Nonresidential	+ 7	+50	+34
Public works and utilities	−20	− 7	− 1

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg. = 100)	Employment: Dec. 1950 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: Dec. 1950 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: Dec. 1950	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: Dec. 1950	Average Hourly Earnings: % chg. from year ago
All manufacturing	140	0	+11	388	+ 3	+28	$62.21	+15	$1.524	+10
Durable goods industries	165	+1	+18	437	+ 5	+36	68.47	+15	1.639	+ 9
Nondurable goods industries	116	−1	+ 3	324	0	+14	53.54	+11	1.355	+ 9
Foods	129	−2	+ 2	303	0	+11	52.64	+ 8	1.275	+ 8
Tobacco	90	−1	+ 1	239	− 3	+16	34.75	+14	.900	+ 9
Textiles	86	−1	+ 1	261	− 2	+12	54.10	+10	1.362	+ 9
Apparel	135	−2	0	385	− 1	+13	40.32	+13	1.122	+12
Lumber	170	−1	+ 4	437	+ 1	+15	44.80	+10	1.071	+ 7
Furniture	150	−2	+14	425	− 5	+17	52.19	+ 3	1.214	+ 7
Paper	152	0	+10	446	+ 1	+23	63.41	+12	1.417	+ 8
Printing and publishing	121	+1	+ 2	308	+ 3	+ 8	72.09	+ 6	1.816	+ 6
Chemicals	146	+1	+12	396	+ 2	+26	64.69	+12	1.554	+ 9
Petroleum and coal products	155	0	0	409	+ 1	+11	79.56	+11	1.914	+ 6
Rubber	244	+4	+30	703	+ 5	+53	71.59	+18	1.734	+12
Leather	93	−1	0	245	− 1	+12	45.48	+12	1.163	+11
Stone, clay and glass	143	−2	+12	385	− 3	+26	61.74	+13	1.547	+10
Primary metal industries	136	+1	+20	375	+10	+42	76.95	+19	1.850	+ 9
Fabricated metal products	180	+2	+27	486	+ 6	+48	62.24	+17	1.535	+10
Machinery (except electrical)	234	+1	+22	643	+ 2	+45	69.71	+19	1.589	+ 9
Electrical machinery	265	+1	+20	593	0	+26	62.57	+ 5	1.528	+ 5
Transportation equipment	144	+2	+ 1	371	+ 4	+12	72.94	+11	1.811	+ 7
Instruments and related products	179	+1	+24	499	− 4	+41	63.80	+13	1.542	+ 8
Misc. Manufacturing Industries	153	−1	+21	401	0	+35	53.60	+11	1.237	+ 8

*Production workers only.

TRADE

Third F. R. District Indexes: 1935-39 Avg. = 100 Adjusted for seasonal variation	Dec. 1950 (Index)	Per cent change: Dec. 1950 from month ago	Per cent change: Dec. 1950 from year ago	Per cent change: 12 mos. 1950 from year ago
SALES				
Department stores	307	+13	+11	+6
Women's apparel stores	253	+11	+10	−5
Furniture stores	......	+40*	+ 1*	+5*
STOCKS				
Department stores	288p	+ 2	+24	......
Women's apparel stores	240	+ 2	+13	......
Furniture stores	......	− 8*	+37*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended January 6	+33
Week ended January 13	+26
Week ended January 20	+25
Week ended January 27	+29

* Not adjusted for seasonal variations. p-preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. Dec. 1950 from year ago	Sales: % chg. 12 mos. 1950 from year ago	Stocks (end of month): % chg. Dec. 1950 from year ago	Stocks: Ratio to sales (months' supply) December 1950	Stocks: Ratio to sales (months' supply) December 1949
Total — All departments	+ 3	+ 3	+23	1.5	1.3
Main store total	+ 3	+ 4	+23	1.6	1.4
Piece goods and household textiles	+11	+ 2	+29	3.3	2.8
Small wares	0	+ 1	+13	1.3	1.2
Women's and misses' accessories	+ 4	+ 2	+16	1.3	1.1
Women's and misses' apparel	+ 5	− 4	+12	1.4	1.3
Men's and boys' wear	+ 5	+ 5	+17	1.2	1.1
Housefurnishings	+ 4	+14	+37	2.9	2.2
Other main store	0	− 1	+14	0.6	0.5
Basement store total	+ 3	− 1	+21	1.1	0.9
Domestics and blankets	+20	+12	+47	2.4	2.0
Small wares	− 4	+ 3	+21	0.7	0.6
Women's and misses' wear	+ 2	− 5	+ 9	0.8	0.8
Men's and boys' wear	+ 6	+ 3	+27	0.9	0.8
Housefurnishings	− 4	+ 1	+33	1.9	1.3
Shoes	+ 2	− 1	+12	1.5	1.4
Nonmerchandise total	0	+ 2	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receivables (end of month)
	% chg. Dec. 1950 from year ago	% chg. 12 mos. 1950 from year ago	% chg. Dec. 1950 from year ago
Department stores			
Cash	+ 5	0	....
Charge account	+ 7	+ 6	+ 7
Instalment account	− 7	+12	+12
Furniture stores			
Cash	+10	0	....
Charge account	+13	+14	....
Instalment account	− 4	+ 8	+14

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. Dec. 1950 from year ago	% chg. 12 mos. 1950 from year ago	% chg. Dec. 1950 from year ago
Consumer instalment loans			
Commercial banks	−13	+43	+ 3
Industrial banks and loan companies	− 6	+ 5	+10
Small loan companies	−41	−38	+ 9
Credit unions	+22	+26	+32

PRICES

Index: 1935-39 average = 100	Dec. 1950 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States	217	+2	+16
Farm products	247	+2	+21
Foods	226	+2	+15
Other	205	+2	+15
Consumer prices			
United States	178	+2	+ 7
Philadelphia	178	+2	+ 7
Food	211	+3	+ 9
Clothing	194	+1	+ 5
Fuel	149	+1	+ 2
Housefurnishings	218	+2	+14
Other	160	+3	+ 5

Weekly Wholesale Prices—U.S. (Index: 1935-39 average = 100)	All commodities	Farm products	Foods	Other
Week ended January 2	219	249	230	206
Week ended January 9	221	253	231	207
Week ended January 16	222	252	230	208
Week ended January 23	223	258	232	208
Week ended January 30	224	259	234	209

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (Billions $)	Dec. 27 1950	Changes in—	
		four weeks	year
Money supply, privately owned	177.2	+3.1	+ 7.4
Demand deposits, adjusted	93.2	+2.6	+ 7.5
Time deposits	59.0	+ .4	+ .4
Currency outside banks	25.0	+ .1	− .4
Turnover of demand deposits	20.5*	−1.9*	+14.5*
Commercial bank earning assets	127.5	+2.0	+ 7.4
Loans	52.8	+1.2	+ 9.9
U.S. Government securities	62.4	+ .6	− 4.6
Other securities	12.3	+ .2	+ 2.1
Member bank reserves held	17.2	+ .4	+ .9
Required reserves (estimated)	16.4	+ .3	+ 1.0
Excess reserves (estimated)	.8	+ .1	− .1

Changes in reserves during 4 weeks ended December 27 reflected the following:

(Billions $)	Effect on reserves
Increase in Reserve Bank holdings of Governments	+.8
Increase in loans to member banks	+.1
Other Federal Reserve Bank credit	+.4
Increase of money in circulation	−.4
Gold and foreign transactions	−.3
Net payments to the Treasury	−.2
Changes in reserves	+.4

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	Jan. 24 1951	Changes in—	
		four weeks	year
Weekly reporting banks—leading cities United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	18.0	+ .2	+ 4.1
Security	2.3	− .2	+ .4
Real estate	5.3	....	+ .9
To banks	.4	− .1	....
All other	5.9	....	+ 1.5
Total loans—gross	31.9	− .1	+ 6.9
Investments	38.9	− 1.3	− 4.3
Deposits	79.8	− .9	+ 3.1
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	664	+ 16	+192
Security	44	− 2	+ 12
Real estate	144	− 1	+ 37
To banks	16	− 5	+ 9
All other	376	− 5	+ 61
Total loans—gross	1,244	+ 3	+311
Investments	1,614	−133	−243
Deposits	3,199	−109	+104
Member bank reserves and related items United States (*billions $*):			
Member bank reserves held	18.3	+ 1.1	+ 1.8
Reserve Bank holdings of Governments	20.5	+ .2	+ 2.8
Gold stock	22.4	− .4	− 2.0
Money in circulation	27.0	− .9	+ .1
Treasury deposits at Reserve Banks	.3	− .5	− .3
Federal Reserve Bank of Phila. (*millions $*):			
Loans and securities	1,300	− 61	+111
Federal Reserve notes	1,629	− 55	+ 33
Member bank reserve deposits	861	+ 74	+ 92
Gold certificate reserves	1,242	+ 35	− 36
Reserve ratio (%)	48.6%	+ 1.9%	− 3.1%