I. A LOOK BACKWARD

A. 1940 versus 1950

| Fall of France— | Invasion of S. Korea |
| Begin our real |       |
| defense effort | June 1950 |
| June 1940       | June 1950 |
| Employment      | 49 mil. | 61.5 mil. |
| Unemployment    | 8 mil.  | 3.4 mil.  |
| Index of industrial output | 125 | 199 |

Steel capacity (% operated) | 5.7 (85%) | 8.1 (101%) |
Motor vehicle production | 344,600 | 857,200 |
Housing starts | 50,000 | 143,000 |
Consumer price level | 100 | 175 |
Wholesale price level | 100 | 200 |
Federal Gov't taxes (fiscal) | $6 bil. | $37 bil. |
Federal Gov't debt | $50 bil. | $250 bil. |
Money supply | $65 bil. | $170 bil. |
Sensitivity to inflation | Low | High |

B. Initial impact of Korean invasion

1. Government
   a. Talk and appropriations
   b. Taxes

2. Private sector of the economy
   Spend
II. LOOKING AHEAD

A. In real terms

1. Manpower projections (Woody Thomas-Dept. of Agriculture
   Outlook Conference - 10/30/50)

   Needs
   - Armed forces: 1.5 from 1.5 to 3.0
   - Defense: 3.0 from 1.7 to 4.7
   - Total: 4.5

   Sources
   - Increase in labor force: 1.7 from 64.8 to 66.5
   - Reduction in unemployment: 1.8 from 3.3 to 1.5
   - Total: 3.5

   Reduction in civilian workers: 1.0

   (2 million more working)

2. Government Demands and Output Projections
   (Annual rates at 3d quarter 1950 prices)

<p>| 3d Quarter |</p>
<table>
<thead>
<tr>
<th>1950</th>
<th>1951</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gov't demands</td>
<td>$43 billion</td>
</tr>
<tr>
<td></td>
<td>/ $19 billion</td>
</tr>
<tr>
<td>G. N. P.</td>
<td>$284 billion</td>
</tr>
<tr>
<td></td>
<td>/ $16 billion</td>
</tr>
<tr>
<td>Civilian</td>
<td>$241 billion</td>
</tr>
<tr>
<td></td>
<td>/ $3 billion</td>
</tr>
</tbody>
</table>

   a) C.E.D. estimate: $35 billion military, $27 billion non-military.
   b) Major factors accounting for
      2 million more people working
      Somewhat longer hours (why not 44 or 48 hr. normal week?)
      Operate stand-by facilities
      Additions to plant and equipment
      Increased productivity
   c) C.E.D. estimate. Woody Thomas estimates $301 billion for second
   d) Woody Thomas estimates - $1 billion for 2d quarter of 1951.

3. Summary of our problem in real terms
   a. Over-all:
      Produce 5-6% more
      Consume and invest 4-5% less
   b. Breakdown
      (1) Investment versus consumption
      (2) Shift from durables to nondurables and services
B. Our problem in financial terms (Who shall bear the burden?)

1. We will have $16 billion more income (before taxes) but $3 billion less goods and services to buy.

2. Government expenditures for 1951 ... $62 billion
   Government receipts fiscal 1950 ... $41 billion
   Needed increase in receipts ....... $21 billion

   Sources:
   Expanded S.S. coverage
   September 1950 tax increase
   Greater G.N.F.
   Deficit .................... $7 billion

   (Woody Thomas estimates $11 billion)

3. Expenditures not limited to current income
   a. Liquidating past savings
   b. Going into debt

C. Our options

1. Let inflation proceed
   a. Why resistance to inflation has been weak
   b. Why it is likely to increase

2. Fiscal, monetary and credit controls to limit demand
   a. Fiscal policy
      (1) Cut expenditures
          - not merely automatic reductions
      (2) Raise $6-10 billion additional
          - seasonal receipts
          (The spring "shock" - advantage - speculative buying
          disadvantage - believe inflation licked)
      (3) Excess profits tax (?)
          (a) Bad in principle
          (b) Administrative difficulties
              - 30,000 claims settled in 5 years
              - 20,000 remaining = $6 billion
      (4) Income taxes
          (a) Corporate
          (b) Individual
   b. Monetary policy
      (1) Control volume of reserves
      (2) Interest rate level and structure
   c. Debt management policy
   d. Selective credit controls
3. Direct controls
   a. Limited
   b. Comprehensive
   c. When appropriate
      (1) Large effort: 40-50% of output
      (2) Limited period
      (3) Patriotic enthusiasm

(Administrative problems)

Used the following at the beginning of speech:

Necessity of quantifying

Impossibility of doing it. Magnitude to be reached. Rate of increase.

Take it all with a grain - or a shaker - of salt.

Like trying to find answer to problem in logic.

The following is adapted from an examination in logic prepared recently by the mathematician Walter Pitts of the Massachusetts Institute of Technology:

If a mathematician does not have to wait 20 minutes for a bus, then he either likes Mozart in the morning or whisky at night, but not both.

If a man likes whisky at night, then he either likes Mozart in the morning and does not have to wait 20 minutes for a bus or he does not like Mozart in the morning and has to wait 20 minutes for a bus or else he is no mathematician.

If a man likes Mozart in the morning and does not have to wait 20 minutes for a bus, then he likes whisky at night.

If a mathematician likes Mozart in the morning, he either likes whisky at night or has to wait 20 minutes for a bus; conversely, if he likes whisky at night and has to wait 20 minutes for a bus, he is a mathematician - if he likes Mozart in the morning.

When must a mathematician wait 20 minutes for a bus?

The reader is not advised to try to work out the solution, for this problem is practically impossible to handle verbally.

From: SCIENTIFIC AMERICAN - December 1950, p. 22


GROSS NATIONAL EXPENDITURE AND PERSONAL INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>2nd Quarter 1950</th>
<th>3rd Quarter 1950</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>GROSS NATIONAL PRODUCT—TOTAL</td>
<td>270.3</td>
<td>284.3</td>
<td>14.0</td>
</tr>
<tr>
<td>Government, total 1/</td>
<td>40.2</td>
<td>40.8</td>
<td>.6</td>
</tr>
<tr>
<td>Federal</td>
<td>21.7</td>
<td>21.4</td>
<td>.3</td>
</tr>
<tr>
<td>State and local</td>
<td>18.8</td>
<td>19.6</td>
<td>.8</td>
</tr>
<tr>
<td>Gross private domestic investment</td>
<td>46.9</td>
<td>48.4</td>
<td>1.5</td>
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<tr>
<td>New construction</td>
<td>21.3</td>
<td>22.8</td>
<td>1.5</td>
</tr>
<tr>
<td>Residential nonfarm</td>
<td>12.2</td>
<td>13.5</td>
<td>1.3</td>
</tr>
<tr>
<td>Other</td>
<td>9.1</td>
<td>9.4</td>
<td>.3</td>
</tr>
<tr>
<td>Producers' durable equipment</td>
<td>22.3</td>
<td>27.1</td>
<td>4.8</td>
</tr>
<tr>
<td>Change in business inventories</td>
<td>3.4</td>
<td>-1.5</td>
<td>-4.9</td>
</tr>
<tr>
<td>Nonfarm only</td>
<td>4.0</td>
<td>-1.0</td>
<td>-5.0</td>
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<tr>
<td>Net foreign investment 2/</td>
<td>-2.0</td>
<td>-3.3</td>
<td>-1.3</td>
</tr>
<tr>
<td>Personal consumption expenditures</td>
<td>185.2</td>
<td>198.4</td>
<td>13.2</td>
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<tr>
<td>Durable goods</td>
<td>26.7</td>
<td>33.5</td>
<td>6.8</td>
</tr>
<tr>
<td>Nondurable goods</td>
<td>99.3</td>
<td>104.9</td>
<td>5.6</td>
</tr>
<tr>
<td>Services</td>
<td>59.2</td>
<td>59.9</td>
<td>.7</td>
</tr>
<tr>
<td>PERSONAL INCOME</td>
<td>215.1</td>
<td>224.8</td>
<td>9.7</td>
</tr>
<tr>
<td>Disposable personal income</td>
<td>195.6</td>
<td>204.7</td>
<td>9.1</td>
</tr>
<tr>
<td>Personal saving</td>
<td>10.4</td>
<td>6.4</td>
<td>-4.0</td>
</tr>
</tbody>
</table>

Seasonally Adjusted — Annual Rates

Notes: 1/ Includes purchases of goods and services only and excludes transfer payments, such as veterans' benefits. It includes grants under the foreign aid programs.

2/ Excludes grants under foreign aid programs.

Source: U. S. Department of Commerce