

ECONOMICS AND FINANCE IN A GARRISON STATE

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before the LEAGUE OF WOMEN VOTERS
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I. THE PROBLEM

A. Statement:

Great expansion of Defense effort

B. Contrast: 1941 vs. 1951

1. Relative magnitudes

- (a) 11.6 million men vs. $3\frac{1}{2}$ million
- (b) 40% of GNP vs. 16%

2. Status of economy - partial vs. full employment

3. Psychology - deflationary vs. inflationary

Private spending following invasion of
South Korea

4. Experience with direct controls

- (a) Need for unity (war patriotism) to work
- (b) Do not solve problem

5. Probable duration

C. The real burden

We ought to be able to bear another 5% sacrifice

II. COMPREHENSIVE PROGRAM TO MEET PROBLEM

A. Increase production; necessary; but will not solve

1. The over-all picture

- (a) We receive income for all production, but
- (b) Can spend only on civilian goods, therefore
- (c) Inflationary gap

2. Increasing capacity vs. current consumption - (\$24 billion)

Durables vs. non-durables + services
Regulations W and X

B. Monetary - fiscal policy: indirect controls

1. Limit Government expenditures

- (a) Federal non-defense
Difficulty: Voters want their own pet
projects continued

- (b) Federal defense
Don't want to put dollar sign on
lives of American armed forces
- (c) Local
"Necessary projects already long delayed"

2. Cash surplus
Difficulty: Agree we need more revenues but
"my taxes are already too high"

3. Control of private credit
Lending: non-bank
bank
central bank

4. Debt management
Treasury-Federal Reserve agreement - a victory
for Joe Doaks

C. The role of direct controls

Food - End of war → today	↑ 61%
Average hourly earnings	58%
Wholesale prices	75%
Farm price index	58%

Equity among groups

No reduction in standard
of living

Retail food prices & markups
about $\frac{1}{2}$ to farmer
 $\frac{1}{2}$ to processors

Farm income

1947	17.8 bill.	↓
1949	15.9 "	
1950	13.0 "	