ECONOMIC PROSPECTS

by

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Student: Failed all courses Except E in post-defense planning!

Boy! is he confused!

Can't avoid looking ahead - always difficult.

20/20 vision on past - what has happened - inevitable; any fool could have foreseen.

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Topics:

I. The road we have traveled since Korea.

II. Where we have arrived - where we stand today.

III. A short- and a longer-gaze into the mist.

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I. The road we have traveled since Korea

A. Korea to the Treasury-Federal Reserve accord of March 1951

1. Three quarters - private spending spree

2. G.N.P. 272 → 319 = 17%

\[
\text{47 bil.}
\]

\[
(\text{a) But wholesale prices } + 18\%
\]

\[
\text{consumer prices } + 10\%
\]

\[
i.e., \text{ most of the }
\]

\[
+ \text{ was inflation}
\]

\[
(\text{b) Only } 1/4 \left(\frac{312}{47}\right) \text{ of the increase went to Government}
\]

\[
(\text{c) 3/4 went into private spending spree}
\]

\[
+ \$22 \text{ into consumption}
\]

\[
+ 12 " \text{ investment especially equipment+inventories}
\]
B. The Accord to the fall of 1952

1. Six quarters - the defense build-up

2. G.N.P.  \( 319 \rightarrow 343 \) = 8%  
   \[ \frac{24}{24} \]

   (a) Wholesale prices - 4%  
   Consumer prices + 4%  
   i.e. the expansion was "real"

   (b) Government took it all - $25 billion  
   Private - 1  
   Consumption +7  
   Investment -8  
   especially inventories

C. Since last fall

1. Two quarters - non-defense expansion

2. G.N.P.  \( 343 \rightarrow 363 \) = 6%  
   \[ \frac{20}{20} \]

   (a) Wholesale prices - 2%  
   Consumer prices --  
   i.e. again expansion was "real"

   (b) Government took 1/4  
   but not for defense!  
   Private took 3/4  
   almost entirely consumption

II. Where we stand today

A. A remarkably flexible economy for last two years.  
rolling readjustments with individual price movements  
but fairly stable level  
Profit - and loss economy

B. An "overtime" economy

1. March unemployment: 1.7 million lowest post-war March

2. 40-41 hours in non-durable)  
   41-42 " " durable ) overtime pay
II. C. Some current rates

<table>
<thead>
<tr>
<th>Industry</th>
<th>Rate/Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial production</td>
<td>242 (only 3 points below peak Nov. 1943)</td>
</tr>
<tr>
<td>Auto – late April rate</td>
<td>7.5 mill. (50% above year ago)</td>
</tr>
<tr>
<td>T.V.</td>
<td>7 mill. (Cf. 9-10 last autumn and 4 a year ago)</td>
</tr>
<tr>
<td>Housing</td>
<td>245,000 starts in 1st quarter – same as last year</td>
</tr>
</tbody>
</table>

III. A look ahead

A. Two political imponderables
   1. Malenkov and "new" Russian situation
   2. Our own change in administration

B. In an overtime economy, one looks for weak spots
   1. Agriculture
      Reduced demand for industrial products BUT lower food costs
   2. Transition from sellers to buyers market
      Elimination of overtime incomes especially automobiles and household durables
   3. Exceptional increases in private credit

C. On the other hand: sustaining but not expansionary forces
   1. Defense spending will not be cut - deficits?
   2. Prices have been flexibly adjusting in a rolling fashion
   3. Business capital expenditures will remain high
   4. Consumers fickle
      Some later weakness - not immediate, not too severe

D. Fiscal and monetary policy
   1. Fiscal outlook not good
   2. Debt-management difficult but progress is being made
   3. Monetary policy - flexible
      Should it be based on what is now going on? 
or
      on what we fear may happen?
E. Our fear (fixation) on economic instability

1. Evidences of it - really since 1930's
   (a) Predictions of post-war unemployment
   (b) Recurring fear of depression
   (c) Current fears
      (1) Prosperity depends too much on defense
      (2) We have overexpanded our plant
      (3) Inventories are excessive
      (4) Too much private debt - yet must have even more to maintain prosperity
      (5) Post-war expansive forces have spent themselves
      (6) Down movement accumulates
      (7) Won't go to trade not aid - end with neither
      (8) International repercussions

2. Effects of our fears
   (a) On public policy
      We have chosen probable inflation to possible unemployment
   (b) On private actions
      We haven't gone through the ceiling

F. Some long-run factors

1. Defense 40-50 billion a year
   Tax relief from growing economy

2. Other Government - especially state and local
   Roads, schools, other public, hospitals

3. Business
   Capital investment - Depreciation + obsolescence
   recent levels not exceptionally high RELATIVELY

4. Individuals
   Population - No. and age distribution
   Standard of living - long run
Conclusion:

Very short run - strong
Very long run - optimistic
Intermediate - we haven't licked the cycle

High standard of living society can
postpone
accelerate

Flexible fiscal and monetary policy can mitigate

KRB - 6/2/53
### CHANGES IN GROSS NATIONAL PRODUCT

#### Annual Rates

<table>
<thead>
<tr>
<th>Year</th>
<th>2nd Quarter 1950 Korea</th>
<th>1st Quarter 1951 Accord</th>
<th>Change 3 Quarters</th>
<th>3rd Quarter 1952</th>
<th>Change 6 Quarters</th>
<th>1st Quarter 1953</th>
<th>Change 2 Quarters</th>
<th>Change 6 Quarters</th>
<th>Change 12 Quarters</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product</td>
<td>278</td>
<td>320</td>
<td>42</td>
<td>343</td>
<td>23</td>
<td>361</td>
<td>18</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal consumption</td>
<td>189</td>
<td>210</td>
<td>21</td>
<td>215</td>
<td>5</td>
<td>226</td>
<td>11</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Durable</td>
<td>27</td>
<td>31</td>
<td></td>
<td>24</td>
<td></td>
<td>30</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-durable</td>
<td>100</td>
<td>113</td>
<td>119</td>
<td>122</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Service</td>
<td>62</td>
<td>66</td>
<td></td>
<td>72</td>
<td></td>
<td>74</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Private investment</td>
<td>50</td>
<td>60</td>
<td>10</td>
<td>52</td>
<td>-8</td>
<td>54</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction</td>
<td>22</td>
<td>25</td>
<td></td>
<td>23</td>
<td></td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td>22</td>
<td>25</td>
<td>25</td>
<td>27</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inventory</td>
<td>6</td>
<td>10</td>
<td></td>
<td>4</td>
<td></td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>40</td>
<td>52</td>
<td>12</td>
<td>78</td>
<td>26</td>
<td>82</td>
<td>4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal</td>
<td>21</td>
<td>31</td>
<td></td>
<td>55</td>
<td></td>
<td>57</td>
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<td></td>
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<tr>
<td>National Security*</td>
<td>17</td>
<td>28</td>
<td></td>
<td>50</td>
<td></td>
<td>51</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State and local</td>
<td>19</td>
<td>21</td>
<td></td>
<td>23</td>
<td></td>
<td>25</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Prices (1947-49 = 100)

<table>
<thead>
<tr>
<th>Year</th>
<th>May 1950</th>
<th>March 1951</th>
<th>Sept. 1952</th>
<th>April 1953</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wholesale Index</td>
<td>100</td>
<td>116</td>
<td>112</td>
<td>109</td>
</tr>
<tr>
<td>Consumer Price Index</td>
<td>101</td>
<td>110</td>
<td>114</td>
<td>114</td>
</tr>
</tbody>
</table>

* Military services, international security and foreign relations (except foreign loans), atomic energy, merchant marine, promotion of defense production and economic stabilization, and civil defense. — Economic Indicators