ECONOMIC PROSPECTS June 2, 1953

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%
47 bil.

(a) But wholesale prices + 18%
consumer prices + 10%
i.e., most of the + was inflation

(b) Only 1/4 $\left(\frac{13}{47}\right)$ of the increase went to Government

(c) 3/4 went into private spending spree

+ $22 into consumption
+ 12 " investment
especially equipment+inventories

B. The Accord to the fall of 1952

1. Six quarters - the defense build-up

2. G.N.P. 319 → 343 = 8%
   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 → 363 = 6%
   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. <u>Where we stand today</u>

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

B. An "overtime" economy

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

2. 40-41 hours in non-durable) overtime pay
   41-42 " " durable)

II. C. Some current rates

Industrial production	242	(only 3 points below peak Nov.1943)
Auto - late April rate	7.5 mill.	(50% above year ago)
T.V.	7 mill.	(Cf. 9-10 last autumn and 4 a year ago)

Housing 245,000 starts in 1st quarter - same as last year

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 - <u>Depreciation</u> + obsolescence recent levels not exceptionally high RELATIVELY

4. Individuals

   Population - No. and age distribution
   Standard of living - long run

<u>Conclusion</u>:

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	2nd Quarter 1950 Korea	1st Quarter 1951 Accord	Change 3 Quarters	3rd Quarter 1952	Change 6 Quarters	1st Quarter 1953 Last	Change 2 Quarters
Gross National Product	278	320	42 +15%	343	23 +8%	361	30 18 +5%
Personal consumption	189	210	21	215	5	226	11
Durable	27	31		24		30	
Non-durable	100	113		119		122	
Service	62	66		72		74	
Private investment	50	60	10	52	- 8	54	2
Construction	22	25		23		25	
Equipment	22	25		25		27	
Inventory	6	10		4		2	
Government	40	52	12	78	26	82	4
Federal	21	31		55		57	
National Security*	17	28		50		51	
State and local	19	21		23		25	
Prices (1947-49 = 100)	May 1950	March 1951		Sept. 1952		April 1953	
Wholesale Index	100	116	+ 16%	112	- 3%	109	- 3%
Consumer Price Index	101	110	+ 9%	114	+ 4%	114	0

Total
$83
+30%

$42
half

$33

$9
non def

* 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

5/29/53