FEDERAL EXPENDITURE, ECONOMIC GROWTH, AND STABILITY

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If we bear in mind the inherently close and complex relationship of Government spending, taxation, borrowing and debt management, as well as monetary policy, it is appropriate to separate out and focus attention upon any one of these parts of the fiscal-monetary pattern. In this compendium we are particularly concerned with the significance of Federal expenditure policy in terms of economic growth and stability, although the spending of State and local governments is not to be overlooked.

An earlier study, made in the same manner and for the same purpose as the one we are engaged in, dealt with taxation.[1] In its preliminary section, entitled "Focus of Tax Policy: Short-Run Stabiliza- and Long-Run Growth," various statements appear with respect to the nature, causes, and relationship of economic growth and stability which are germane also to a study of Government expenditure. Although the present paper undertakes to offer a fresh, but not in all ways dissimilar, view, it seems worthwhile to call attention to basic observations made in the earlier study. One, for example, is that although there is "considerably less than unanimity among duly accredited economists about the true explanation of business cycles * * * there is a broad range of agreement about the key role of monetary and credit expansion and contraction in producing surges of business and recessions." Another is that there is general agreement that "a lack of balance between investment and consumption may precipitate severe economic ups and downs." Still another is that "wartimes excepted, when we have had a high level of business investment in new producing facilities, we have had a high level of prosperity, and when we have had a low level of such investment the reverse has been true."[2] These and other generalizations made in that study, however qualified by the individual economist, may help to clear the ground and further our progress.

The purpose of this paper is to note not only the significant changes that have occurred in the amount and types of Federal expenditure but also the variations in other economic phenomena which are associated with Federal financial policies. Emphasis is placed upon the period since World War II, for a part of the question which this and the succeeding studies will attempt to answer is whether the Federal Government has been doing, financially, what it ought to do and leav-

[1] United States Congress, Joint Committee on the Economic Report, Federal Tax Policy for Economic Growth and Stability, papers submitted by panelists appearing before the Subcommittee on Tax Policy, 84th Cong., 1st sess. (Washington, Government Printing Office, 1955).

[2] Dexter M. Keezer, Economic Stability and Growth, Federal Tax Policy for Economic Growth and Stability, pp. 7–8.

ing undone what it ought not to. The earlier history of Federal spending and of economic growth and instability is of value, too, for it gives perspective and shows certain important relationships and trends—especially the trend in Government spending, which has been the most dramatic of them all.

Federal Expenditure, Economic Growth, and Instability, 1789–1933

Some generalizations will save much tabular space, yet keep the picture clear. The interrelationship of Federal spending and economic activity has been continually of major significance only since 1933. Until then Federal expenditure (and taxation, borrowing, and debt management) were often incidental and random influences, although there were times when Federal finance dominated the economy. Most notable of these were during and immediately after the War of 1812, the Civil War, and World War I. In quite a different way the unique problem of surplus revenue, which appeared in the 1830's and again in the 1880's and was associated with the political controversy over the tariff, gave a special emphasis to Federal disbursements (expenditure, debt retirement, and even—in 1837—the division of excess accumulated revenue among the States).

It cannot be said that during the 19th century and the first third of the 20th century those who understood Government finance were unaware of or unconcerned with the effect of the Government's fiscal activities upon business. At practically all times higher Treasury officials were conscious of it, and when possible they made adjustments—not always wisely—that were intended to mitigate its unfavorable influences. Nevertheless, the concept of the role of government in the Nation's economic life was a narrow one: There was no clearly defined fiscal policy; the spending power granted to Congress by the Constitution was, ordinarily, rigidly interpreted; and the Government's activities were, at most times, a small part of all economic activity.

Although, in this period, there was never any large, planned expenditure program intended to promote economic growth, there was an astonishing increase in real national wealth and income. It was not due to any single cause—climate, natural resources, the industrial revolution, the frontier, population growth, the character of the people, education, a Federal Constitution, saving and investment, an improving monetary system, economic instability, or some other—but to a complexity of causes. Planned Federal spending for broad economic effects, however, was not one of them.

Along with the remarkable growth of wealth and income there was marked economic instability. Prices rose and fell; booms, panics, and depressions ran their course; many fortunes were made which waves of bankruptcy wiped out. There were periods of mass unemployment with attendant misery and despair. The purchasing power of specie and paper currency varied with the phases of the business cycle; and at times when the currency was irredeemable its value depreciated drastically, though in each such instance redeemability finally restored it. The credit of the Government, too, fluctuated, sometimes markedly and adversely when the requirement of war or of unwise peacetime fiscal and monetary policies threatened the future value of the Government's obligations or cast a shadow upon its integrity.

Instabilities such as these were concomitants of great economic growth. Their various effects upon it, however, cannot all be separated out. Some of them would seem to have been far from conducive to long-run growth. Others, however, may have been essential to it. Any decline in the Government's credit and any marked decline in the value of the currency with its attendant inflationary effect on the price level—as such instabilities induced consumption spending and speculation rather than saving and investment—were probably not, although in the shorter run the inflationary stimulation could, like a narcotic acting upon the human system, make them seem to be. The panics and depressions—drastic perhaps in proportion to the debris of financial excesses, unwise investment, and false values which they cleared away—may well have been a necessary part of long-run real growth, though during them those who suffered would have found this hard to believe.

Because of the enormous change in magnitude of Federal expenditure over the course of time table 1 shows, in millions of dollars, the trend prior to 1933, while later as well as some overlapping data, in billions of dollars, appear in tables below.

TABLE 1.—*Expenditure of the Federal Government: selected years, 1789–1932*

[In millions of dollars]

1789–91	4.3
1800	10.8
1825	15.9
1850	39.5
1865	1,297.6
1875	274.6
1900	520.9
1910	693.6
1919	18,514.9
1920	6,403.3
1925	3,063.1
1930	3,440.3
1932	4,659.2

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, 1956.

FEDERAL, STATE, AND LOCAL EXPENDITURE

Before observing further the trends of Federal expenditure and economic growth and the nature of various phenomena associated with them, it is appropriate to note certain trends in expenditure by State and local government and their relation to that of the Federal Government.

During the 19th century, except for a time when State governments participated in canal construction and in railroad building and banking, their expenditures were kept to a minimum and were mostly concerned with the functions of general government, although some outlays were made for education, assistance to agriculture, and for construction and operation of asylums and hospitals. In the 20th century, and especially from 1920 onward, State government expenditure increased enormously, rising from about $350 million in 1913 to $21.7 billion in 1956. Construction and maintenance of highways, support of education, and social-welfare activities accounted for the greater part of this expansion. The relative amounts of these and other expenditures have varied widely among the individual States.

Local government expenditure increased almost continually from 1800 onward. Before 1860 municipal activities expanded greatly due to population increase, urbanization, and a public demand for more and better services at the local governmental level. Thereafter the increase continued, but at a slower rate and with retrenchments in depression periods. Between 1913 and 1956 expenditures by local governments rose from $1.5 billion to $28.3 billion. The major outlays today are for education, construction and maintenance of streets and highways, and public health and sanitation.

TABLE 2.—*The recent trend in State and local expenditures, 1953–56* [1]

[In billions of dollars]

Year	State	Local	Total
1953	16.8	21.7	38.5
1954	18.7	23.8	42.5
1955	20.4	26.2	46.6
1956	21.7	28.3	50.0

[1] Without exclusion for transactions between levels of government.

Source: U. S. Department of Commerce, Bureau of the Census, Summary of Governmental Finances, 1955, 1956.

Before the middle of the 1930's expenditure of the Federal Government was the lesser part of all Government expenditure, except during wars and for short periods following them. Ordinarily, since 1890, Federal expenditure was between 25 and 30 percent of the total, local expenditure was 50 to 60 percent, and State expenditure ranged from 10 to 20 percent. In the period 1953–56 State and local expenditures together varied from 30 to 37 percent of all Government expenditure while Federal expenditure was between 63 and 70 percent. During that time local expenditure exceeded that of the States by about 30 percent, and nearly a third of State expenditure was of an intergovernmental nature.

TABLE 3.—*Percentage distribution of Government expenditure: Selected years, 1890–1956*

Year	Federal	State and local	Total	Year	Federal	State and local	Total
1890	35.6	64.4	100	1940	48.5	51.5	100
1913	26.8	73.2	100	1944	92.1	7.9	100
1919	87.5	12.5	100	1948	67.5	32.5	100
1929	27.0	73.0	100	1955	64.2	35.8	100
1933	35.7	64.3	100	1956	63.3	36.7	100
1936	52.7	47.3	100				

Sources: William J. Shultz and C. Lowell Harriss, American Public Finance, 6th edition (New York: Prentice-Hall, Inc., 1954), p. 20; and U. S. Department of Commerce, Bureau of the Census, Survey of Governmental Finances in 1955, 1956.

The More Recent Expansion of Federal Spending

The following tables show the nature and trend of expenditure by the Federal Government in more recent times:

TABLE 4.—*Budget receipts and expenditures: Selected fiscal years, 1900–57*

[In billions of dollars]

Year	Net receipts [1]	Expenditures	Surplus or deficit (−)	Year	Net receipts [1]	Expenditures	Surplus or deficit (−)
1900	0.6	0.5	(2)	1949	37.7	39.5	−1.8
1910	.7	.7	(2)	1950	36.5	39.6	−3.1
1920	6.7	6.4	.3	1951	47.6	44.1	3.5
1930	4.2	3.4	.7	1952	61.4	65.4	−4.0
1935	3.7	6.5	−2.8	1953	64.8	74.3	−9.5
1940	5.1	9.1	−3.9	1954	64.7	67.8	−3.1
1945	44.5	98.4	−53.9	1955	6 .4	64.6	−4.2
1946	39.8	60.4	−20.7	1956	68.2	66.5	1.6
1947	39.8	39.0	.8	1957 [3]	70.1	69.3	1.6
1948	41.5	33.1	8.4				

[1] Total receipts less refunds of receipts beginning with fiscal year 1931, and less transfer of tax receipts to the Federal old-age and survivors' insurance trust fund beginning with fiscal 1937 and to the railroad retirement account beginning with fiscal 1938.
[2] Less than $50,000,000.
[3] Preliminary.

Sources: Annual report of the Secretary of the Treasury on the State of the Finances, 1956; and Treasury Bulletin, August 1957.

TABLE 5.—*Expenditure by major functions, fiscal years 1933–40*

[In billions of dollars]

	1933	1934	1935	1936	1937	1938	1939	1940
National defense	0.7	0.5	0.7	0.9	0.9	1.0	1.2	1.6
Veterans' Administration	.9	.6	.6	2.4	1.1	.6	.6	.6
Grants to States				(1)	.2	.3	.3	.4
Public works	.4	.7	.9	.7	1.0	.8	1.0	.9
Aid to agriculture	.2	.8	1.1	.9	1.0	.9	1.2	1.6
Relief and work relief	.4	1.8	2.3	2.3	2.4	1.9	2.6	1.9
Other departmental	.4	.3	.3	.3	.4	.4	.5	.6
Interest on public debt	.7	.8	.8	.7	.9	.9	.9	1.0
Other [2]	.3	.5	.3	.3	.3	.5	.4	.5
Grand total [3]	3.9	6.0	7.0	8.7	8.2	7.2	8.7	9.0

[1] Less than $30,000,000.
[2] See annual reports of the Secretary of the Treasury for breakdown of this item.
[3] Adjustments of some of these data have been made in more recent annual reports. Some figures do not total because of rounding.

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, 1940.

TABLE 6.—*Expenditure by major functions, fiscal years 1941–47*

[In billions of dollars]

	1941	1942	1943	1944	1945	1946	1947
National defense and related activities	6.7	28.3	75.3	89.7	90.5	48 9	17.3
International finance						.7	4.4
Veterans	.6	.6	.6	.7	2.1	4.3	7.3
Interest on the public debt	1 1	2 3	1.8	2.6	3 6	4.7	5.0
Refunds of taxes and duties [1]	.1	.1	.1	.3	1.7	3.0	3.0
All other	5.4	4.2	1.9	2.2	2.5	2.1	5.5
Total	13.8	34.4	79.7	95.6	100.4	63.7	42.5

[1] In table 4 this item is excluded.

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, 1947.

TABLE 7.—*Budget expenditures by major classifications, fiscal years 1948–57* [1]

[In billions of dollars]

	1948	1949	1950	1951	1952	1953	1954	1955	1956
Major national security	11.8	12.9	13.0	22.4	44.0	50.4	46.9	40.6	40.6
International affairs and finance	4.6	6.1	4.7	3.7	2.8	2.2	1.7	2.1	1.8
Veterans' services and benefits	6.7	6.7	6.6	5.3	4.9	4.3	4.3	4.5	4.8
Labor and welfare	1.3	1.6	2.0	2.1	2.2	2.4	2.5	2.6	2.8
Agriculture and agricultural resources	.6	2.5	2.8	.6	1.0	2.9	2.6	4.4	4.9
Natural resources	.6	1.0	1.2	1.3	1.4	1.5	1.3	1.2	1.1
Commerce and housing	1.4	1.9	2.0	2.2	2.6	2.5	.8	1.5	2.0
General Government	1.3	1.1	1.2	1.3	1.5	1.5	1.2	1.2	1.6
Interest on public debt	5.2	5.4	5.7	5.6	5.9	6.5	6.4	6.4	6.8

[1] Details of expenditure within these classifications are shown in each annual report of the Secretary of the Treasury on the state of the finances, 1948–56.

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, 1956.

Two broad generalizations may be made at this point. In the period 1933–40, Federal spending more than doubled, most of the increase being due to expenditure policies related to the great depression. Thereafter until the present time defense spending has dominated, but in markedly different amounts and at quite different ratios to all other expenditure in the annual budgets.

It does not seem conceivable that huge expenditure for war and defense can be conducive to long-run economic growth and stability. Some people hold that a modicum of such expenditure at certain times can be, but there is certainly room for argument. As for the other expenditures of the Federal Government, some are productive, some are wasteful and uneconomic, and some are merely transfer payments. The assignments to other panelists indicate that these various kinds of expenditure are to be considered elaborately and thoroughly for their implications with respect to economic growth and stability.

ECONOMIC GROWTH, 1790–1957

National-wealth data are, at best, rough estimates. The latest year for which they are available is 1952. Since between 1940 and 1952 the purchasing power of the dollar (as measured by consumer prices) had fallen by 47 percent, the 1952 figure of $1,128.4 billion in total national wealth would be $597.8 billion when adujsted to 1940 dollars.

TABLE 8.—*Estimates of national wealth, in current dollars, selected years, 1790–1952*

[In billions of dollars]

1790	1.2	1910	152.0
1800	2.4	1920	374.4
1825	3.3	1930	410.1
1850	7.1	1935	344.9
1860	16.2	1940	424.2
1870	[1] 26.5	1945	570.6
1880	43.3	1949	898.2
1890	65.0	1952	[2] 1,128.4
1900	87.7		

[1] This figure has been reduced to a gold basis.
[2] This total for 1952 includes land valuation as of 1949, the latest year for which such data is available.

Source: U. S. Department of Commerce, Bureau of the Census, Historical Statistics of the United States, 1789–1945, and Statistical Abstract of the United States, 1956.

Estimates of gross national product—the total national output of goods and services at market prices—go back only to 1869. Table 9 shows total and per capita gross national product in constant (1947) in the purchasing power of the dollar. In table 10, however, are shown total and per capita gross national product in constant (1947) dollars for the period 1929–56.

TABLE 9.—*Gross national product or expenditure, in current dollars, selected years, 1869–1957* [1]

[In billions of dollars]

1869–78	7.0	1941	125.8
1874–83	8.9	1942	159.1
1879–88	10.7	1943	192.5
1884–93	11.9	1944	211.4
1889–98	12.7	1945	213.6
1894–1903	15.7	1946	209.2
1899–1908	21.6	1947	232.2
1904–13	28.8	1948	257.3
1909–18	40.1	1949	257.3
1914–23	61.9	1950	285.1
1919–28	81.2	1951	328.2
1924–33	79.1	1952	345.5
1929	104.4	1953	363.2
1930	91.1	1954	363.2
1933	56.0	1955	391.7
1935	72.5	1956	414.7
1940	100.6	1957 (March)	429.1

[1] The figures prior to 1929 are averages per year by decades, as calculated by Kuznets.

Sources: Historical Statistics of the United States, 1789–1945, and Department of Commerce, Office of Business Economics, Survey of Current Business, July 1957.

TABLE 10.—*Total and per capita gross national product in constant (1947) dollars, selected years, 1929–56*

Year	Total	Per capita	Year	Total	Per capita
	Billions of dollars			*Billions of dollars*	
1929	$149.3	$1,225	1952	$293.7	$1,868
1933	103.7	825	1953	305.3	1,920
1940	171.6	1,299	1954	301.3	1,850
1945	263.1	1,880	1955	322.8	1,954
1950	264.7	1,745	1956	332.0	1,973
1951	282.9	1,833			

Source: Data for gross national product, 1929–56, and for per capita gross national product 1929–54, Statistical Abstract of the United States, 1956 and Survey of Current Business, July 1957; per capita calculations for 1955 and 1956 are based on data in Survey of Current Business, July 1957.

Although gross national product is commonly used to measure or suggest the level of prosperity, its size could quite conceivably bear an inverse relationship to national well being. If, for example, Germany had used such calculations in the period 1920–23 when its currency depreciated to one-trillionth of its 1914 value and the nation was sinking deeper into poverty, the figures on gross national product would have reached very high levels. Even when gross national product is adjusted to changes in the price level it reflects a variety of activities which do not add to national well being: that part of government spending which is wasted or goes for war or for armament, giveaway programs, that part of private domestic investment and net foreign investment that may eventually be lost, indirect taxes, personal consumption expenditures which rest on debt that must be paid out of future income.

If we could reduce our defense program, eliminate waste and loss, and prevent further depreciation in the purchasing power of the dollar, the figures on gross national product would certainly decline, assuming no compensatory increase in the volume and value of goods and services produced for civilian use. Under such conditions it would certainly be erroneous to say that national economic well being had declined along with the decline in gross national product. Economic growth, although indicated by the rise in gross national product as expressed in constant dollars, was probably not as great as the figures suggest.

The Increase in the Federal Debt

Due to deficit budgetary policies which were at first associated with depression and then with the prosecution of wars and with defense preparations, the Federal debt has risen astronomically since 1930. Simply stated, most of the present debt represents the excess of Federal expenditure over revenue during that period of time. Although consideration of the Federal debt and its management must here be ancillary to our study of Government expenditure, the role of the debt in its present largely unfunded form may be of even more significance—in an adverse way—for economic growth and stability than future expenditure policies, good or bad, which are carried out within a balanced budget.

The problem of the debt ties in closely with monetary policy, and it is quite technical. Suffice it to say here that a very large part of a huge debt is payable on demand and within a short period of time. That is, much of the debt can be converted into currency, bank deposits, and bank reserves at the whim of the holders. Thus, any general expectation of fiscal (or monetary) policy that is conducive to further depreciation of the dollar would increase the preference for goods and other property over dollars and fixed-dollar obligations, with the likelihood of a resulting inflationary price rise of such violence and dimension that only the most rigid overall controls could repress it. The present unfunded debt has a tremendous inflationary potential. It is, of course, the result of a long period of unfunded deficit expenditures.

Table 11.—*Principal of the public debt and gross debt per capita: Selected years, 1900–57*

Year	Total gross debt	Gross debt per capita (to nearest dollar)	Year	Total gross debt	Gross debt per capita (to nearest dollar)
	Billions of dollars			*Billions of dollars*	
1900	$1.3	$17	1946	$269.4	$1,905
1910	1.1	12	1947	258.3	1,792
1920	24.3	228	1950	257.4	1,697
1930	16.2	132	1955	274.4	1,660
1935	28.7	226	1956	272.8	1,623
1940	43.0	325	1957 [1]	270.5	1,582
1945	258.7	1,849			

[1] Preliminary.

Source: Annual Report of the Secretary of the Treasury on the State of the Finances, 1956; per capita gross debt figure for 1957 is derived from Treasury Bulletin, 1957.

Full Employment and the Purchasing Power of the Dollar

Since the United States entered World War II the only important element in our economy that has shown stability is employment (or unemployment). Although the total civilian labor force has increased from year to year it has been almost fully kept at work. The percent of that force which has been unemployed at any one time since 1945 has ranged from a high of only 5.5 in 1949 to a low of 2.5 in 1953. These figures may be contrasted with the 24.9 percent unemployed in 1933.

War and defense expenditures have undoubtedly had much to do with this phenomenon of long-run relatively full employment. When wars ended or defense expenditures were reduced, however, consumer and business spending and increased outlays by State and local governments took up much of the slack. In this period the marked increase of all debt, public and private, appears to have been an important sustaining influence on the high level of employment. With the Nation's productive resources continually and practically fully used, and with the purchasing media of the country augmented by monetized debt and an easy-money policy, increasing demand for goods and services pushed against a supply that could not so rapidly be increased. The result was the inflationary phenomena of rising prices and a decline in the purchasing power of the dollar, as well as continual full employment.

Table 12.—*Unemployment, 1941–57*

Year:	*Percent of civilian labor force unemployed*	Year	*Percent of civilian labor force unemployed*
1941	9.9	1950	5.0
1942	4.7	1951	3.0
1943	1.9	1952	2.7
1944	1.2	1953	2.5
1945	1.9	1954	5.0
1946	3.9	1955	4.0
1947	3.6	1956	3.8
1948	3.4	1957 (July)	4.3
1949	5.5		

Sources: Data for 1946–55, Statistical Abstract of the United States, 1956; calculations for 1956 and 1957 are based on data in Federal Reserve Bulletin, August 1957.

Table 13.—*Purchasing power of the dollar, 1939–57*

[1947–49=100. Obtained by computing reciprocals of Consumer Price Index compiled by Department of labor, Bureau of Labor Statistics; these reciprocals are expressed as percentages with average of base period 1947–49=100]

Year:	*Monthly average*	Year	*Monthly average*
1939	168.4	1949	98.2
1940	166.9	1950	97.3
1941	159.0	1951	90.1
1942	143.5	1952	88.1
1943	135.1	1953	87.4
1944	133.0	1954	87.1
1945	130.0	1955	87.3
1946	119.9	1956	86.1
1947	104.7	1957 (June)	83.2
1948	97.3		

Sources: Data for 1939–55, Statistical Abstract of the United States, 1956; calculations for 1956 and 1957 are based on data in Federal Reserve Bulletin, August 1957.

In the years between 1941 and 1957 the conjunction of circumstances which stimulated public and private spending was consonant with the provision of the Employment Act of 1946 "to promote maximum employment." Except, however, as the full employment concept made deficit spending (and the inflationary way in which it was financed) more acceptable that it otherwise would have been, most of the pressure for spending by the Federal Government came from other sources, which, nevertheless, put heavy demands on the labor market. Elsewhere in the economy the full employment doctrine was being implemented automatically by the increasing amount of purchasing media which flooded the economy.

If one is willing to believe that war and defense expenditures have been for those purposes only, then we must look to other parts of the budgets of this period for any deliberately intended "full employment" spending. Other papers in this compendium will undoubtedly do that. The point to be made here is that the Federal spending and the kind of financing that took place brought and helped to sustain relatively full employment, but it was accompanied by a depreciation in the value of the dollar to less than half of what it had been at the beginning of the period. Let us observe just one aspect of that depreciation—its effect on savings.

The effect of the depreciation of the dollar on certain kinds of savings is vividly illustrated in a recent study made by Prof. Walter E. Spahr.[3]

Although the following portion of it is offered to show only one aspect of the overall effect of inflationary policies, its implications are broad. Moreover, just since December 1956, the terminal point for most parts of the study, some further loss in purchasing power has occurred.

> The losses in purchasing power of the following sample items of savings should constitute an arresting illustration of the subtle and far-reaching destructive powers of a depreciated currency while it contributes to high prices and expansion in productive activity and profits (often paper profits) in various other kinds of activities. This economic disease is analogous to a cancerous growth and is not widely understood, partly because people's savings are remote as compared with considerations relating to immediate income.
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> Instead of computing the purchasing power of the savings in these six categories as of December 1956, in terms of the dollar of 1939, the computation rests upon a much smaller item—the average holdings in each 6 categories—4 for the period December 1939 to December 1956, and 2 for the period December 1939 to December 1955.
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> The loss in the purchasing power of these six items alone—losses of over $184 billion—is approximately 97 times the loss of $1,901 million of depositors in banks for the years 1921–33.

[3] Losses in Purchasing Power Arising From Our Depreciated Dollar, Economists' National Committee on Monetary Policy, New York, 1957.

TABLE 14.—*18- and 17-year average holdings*

United States savings bonds (18 years)	$42,180,000,000
Time deposits, all banks (18 years)	50,704,600,000
Savings capital, savings and loan associations (18 years)	13,786,100,000
Life insurance in force (17 years)	203,424,900,000
Annuities in force (17 years)	1,112,600,000
Social-security trust and unemployment funds (18 years)	17,834,200,000
Total average holdings	329,042,400,000
Loss in purchasing power on these average holdings	$184,263,744,000
Percentage loss	56
Bank deposit loss, 1921–33	$1,901,000,000

CONCLUSION

Granting that there has been substantial economic growth in the past two decades, even though in actuality it was not as great in amount as the adjusted gross national product figures indicate (see table 10), it is valid to question (1) whether the real growth of wealth and income would not have been greater under some other set of conditions of Federal expenditure, and (2) whether the conditions under which the growth has occurred have been such that some of their effect will carry over to impede growth in the future.

Further study is needed to determine whether, in an unregimented society, we can have maximum long-run growth without the cleansing function of the downward phases of the business cycle, however they may be modifiable by sound policies and practices and by financial self-restraint on the part of both the Government and the people. Expectation that markets will go down as well as up is itself a powerful restraint upon financial excesses.

The continual desirability of full employment has been emphasized under the assumption that it is essential to stability and long-run growth. This assumption must now be questioned. Full employment may be a wholesome phenomenon or an unwholesome one, depending upon many circumstances. How that level of employment is reached and maintained is an important consideration. Perhaps we should look upon full employment as a worthwhile incidental goal to be sought in every sound way, but, when reached, to be regarded as a signal for great caution.

Because at times in the past there have been great suffering and loss due to unemployment, it does not necessarily follow that continual full employment is the measure most conducive to long-run growth. The prospect, in the coming decades, of great employment transitions and fewer working hours for almost everyone, due to automation and other technological advances, should help to reconcile us to some unemployment as well as to governmental aid to those on whom the brunt of it will fall.

The real goal is maximum long-run growth. How much long-run stability we can expect in a dynamic, growing economy is still a question, but we are now seeing evidence that full employment induced by inflationary Government spending and borrowing is not the way to achieve it. Under the conditions that have developed, the prospect for any real stability is small compared with the likelihood of either severe deflation or marked further inflation, an alternative being rigid, overall, governmental control of the economy.

Another, and far more desirable, alternative is the development and application of fiscal and monetary policies of a kind that will prevent severe deflation while requiring the funding of near-money forms of public debt and encouraging public and private thrift and a high level of business investment.