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COMING EFFECTS OF CURRENT EVENTS

The Readjustments Ahead?

In this article we shall endeavor to outline some of the problems that must be solved if the readjustments ahead are not to precipitate a depression and the preventive medicine that thus far appears to be under consideration by the Administration and the Federal Reserve Board.[1]

Apparently one problem is believed to be that of maintaining the Nation's confidence in the future. And the solution thus far offered has been to have members of the Cabinet give speeches in which a "depression" is not even considered to be a possibility. According to Secretary of the Treasury Humphrey, "We are not headed for a depression." According to Secretary of Commerce Weeks, there may be some adjustments, "but no old-fashioned depression." We should not be surprised if the reaction to such pronouncements were the very pessimism Mr. Weeks fears would occur "if a minority of Jeremiahs in the business community or the writing profession voice such unwarranted gloom about tomorrow as might create an unnecessary fear psychology in the spending public."

Three other problems of major importance include balancing the budget and tax reductions, management of the Federal debt, and the credit policy of the Federal Reserve.

Mr. Humphrey has indicated that, although "the reduction of taxes * * * is one of the best guarantees we have against the fear of depression * * * taxes should not be reduced until expenses are under control." He has indicated that the "present tax system threatens to stifle initiative, expansion, and ultimately jobs," and that "both [expenses and taxes] should come down together, but only as a balance is obtainable." Mr. Humphrey believes "there is no *easy* way to correct our fiscal excesses of past years" and yet the decreasing of taxes "is *simply* a matter of timing geared to reduction of expenses." [Italics supplied.] Unfortunately, for the Government to coordinate tax reductions with decreasing expenditures is not so simple as might be thought. Neither corporate profits nor personal incomes are readily predictable. This calendar year, for example, because the Treasury apparently failed to foresee a $3,200,000,000 decrease in corporate profits during 1952, tax receipts have been substantially below those that present tax rates were intended to provide. Any future change in tax rates may have even greater unpredictable effects on the budget and on the economy.

Similar uncertainties are involved in handling the public debt. Mr. Humphrey warns, "If the debt is so managed as to increase *unduly* the available money supply, foster the *over-extension* of credit and depreciate the value of the dollar it can contribute greatly toward pushing us right back into the inflationary spiral of recent times. If, on the other hand, the debt is so managed that it drains the savings of the people too rapidly and in too large amounts so as to *unduly* restrict credit, depress prices and deprive industry of the funds required for full operation and expansion, then it can contribute to depression. Here again, balance and timing are of first concern, and wise and careful handling of refinancing our enormous debt structure is of the greatest importance." [Italics supplied.]

Mr. Martin of the Federal Reserve Board, seems equally aware of the dangers involved in handling the public debt: "Our efforts should be directed more toward correcting disorderly conditions * * * and that even there, we ought to be extremely careful about intervening *unduly*. * * * And with a Federal fiscal situation that does not depend *excessively* on credit to finance expenditures, reasonable stability in the value of the dollar is again a valid assumption * * * . [Italics supplied.]

Mr. Martin also indicates that credit policy is another problem involving uncertainties and possibilities of error. "Its [Federal Reserve] purpose is to see that * * * the supply of money is neither so large as to induce destructive inflationary forces nor so small as to stifle our great and growing economy."

Evidently, leading figures in the present Administration realize that the economy is in a perilous position. We have climbed up that Alpine peak, inflation, and have left the meadows of stability far below on the other side of the abyss, the valley of depression. They propose, so to speak, to stretch a tightrope that will extend on a gradual slope from our present dizzy height over to the far side of stability meadow in the distant future. And they will try to shift the economy to safer ground by procedures that resemble in many respects the efforts of the tightrope walker carrying a heavy burden.

[1]This article is that referred to in the conclusion of "Peace and Depression?" which was published in the May 4, 1953, *Research Reports*.

Included in the unwieldly burden are the following: artificially supported prices and huge stocks of agricultural commodities, a cost of living near an alltime peak, relatively even higher wages for many as measured in the depreciated dollars, a great industrial expansion program facilitated by the windfall profits of recent years, a vast structure of public debt of which some $55,000,000,000 falls due in the next few months, and a still rapidly growing load of private debt including both installment and real-estate loans.

Many readjustments in all of these burdens must be effected if the economy is to be kept in balance during a long, gradual descent to stability meadows. If laborers generally prove to be willing to accept downward readjustments of wages, if businessmen will reduce their prices in spite of reduced profits, if consumers will refrain from piling their debt even higher, if the Government can successfully refinance its debt without climbing even further up the inflation peak, in short, if all elements of the economy would act in the wisest possible way, there seems to be no *theoretical* reason why a safe journey to stability meadow should not be made, say by 1965 or thereabouts. Nevertheless, one need not be unjustifiably pessimistic to believe that substantial risks of a tumble are involved in the Administration's proposed procedures and that even greater risks would be involved in climbing still higher on the inflation peak.

The foregoing does not imply that we fear or expect a depression comparable to that of 1929-32. Many circumstances are different today, even though our index of inflation is higher now than it was then. Moreover, the 1929-32 depression was preceded by the greatest speculative boom in the Nation's history. With good luck, we may avoid such an additional complicating factor and thus encounter, at worst, only a more or less ordinary cyclical recession.

Conclusions

In the economic situation that now prevails, we believe that the tightrope between inflation and deflation upon which the Administration and the Federal Reserve Board apparently hope to operate will not be an easy one to

1953, decreased to 7,938,823,000 kilowatt-hours from 8,015,707,000 kilowatt-hours in the previous week.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
Billion Kilowatt-Hours†	1.69	1.46	2.24	2.00	6.95	7.94

Lumber production in the week ended April 25, 1953, increased. *The New York Times* seasonally adjusted index was 1 point above that for the preceding week and was 8 points above that for the corresponding week last year.

	1929	*1932*	*1937*	*1938*	*1952*	*1953*
The New York Times Index†	135	42	84	80	111	119

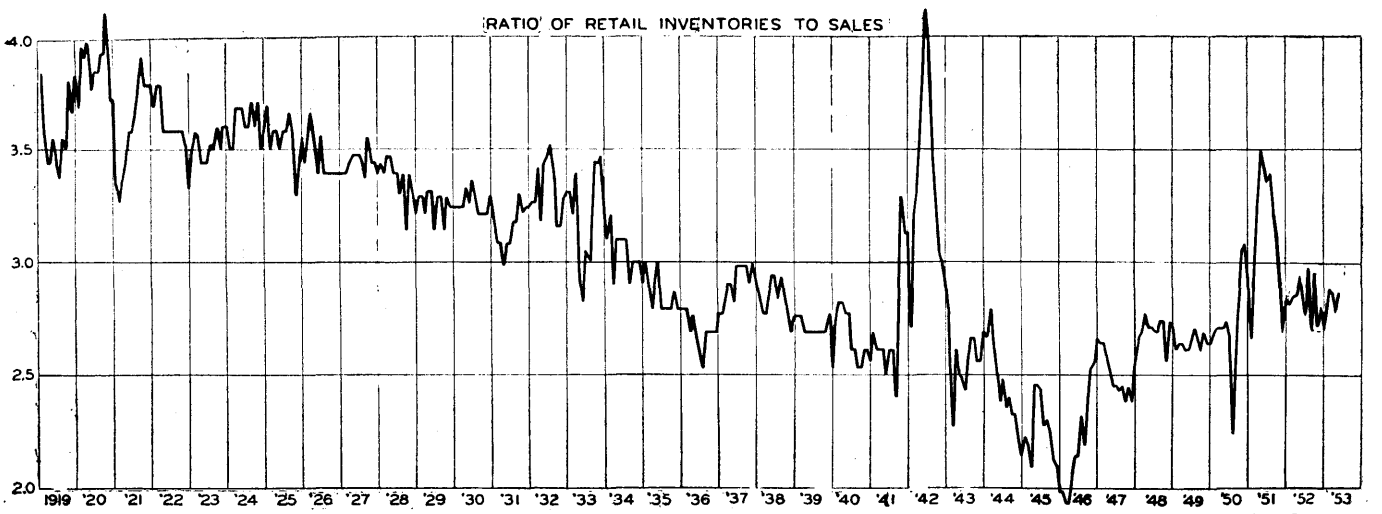
†Latest weekly data; corresponding weeks of earlier years
p=preliminary

DEMAND

Purchasing Media

Total purchasing media increased $4,250,000,000 during April to $125,400,000,000, about $3,300,000,000 less than the alltime high of $128,700,000,000 reached in December 1952 but $4,400,000,000 more than the figure for April 1952. Although an increase during April is not unusual (during the last 7 years the average April increase has been $1,100,000,000), this year's increase is exceptional, largely as a result of a relatively large Treasury cash deficit during the month.

Our revised chart of "Sources of Purchasing Media" is shown for the first time in this issue of the *Research Reports*. We have recently made the following major revisions. First, the total of purchasing media shown on the chart now equals the sum of demand deposits adjusted and currency outside banks. In order to show the total amount of purchasing media that has been created and made available to the economy, idle currency no longer is subtracted from the total. Second, Treasury currency outside banks, which is created directly by the Treasury and not by the commercial banks, is now shown separately as the third source of purchasing media. Finally, we have revised our method of breaking down the amount of available inflationary purchasing media created by the commercial banking system into



of $1,000,000,000 *of new Treasury bills during May and June is bought by the commercial banks, an even greater increase in purchasing media may occur.*

The fact that the present Administration does not contemplate any drastic reduction in actual defense expenditures during the fiscal year 1954 suggests that the Treasury may have substantial cash deficits during the second

March 1952 through January 1953 and a slight downward trend thereafter are discernible. The fluctuation in the ratio of inventories to sales since March has been primarily a result of erratic month-to-month changes in sales.

Data available for major departments indicate that changes in inventories during the year ended January