

# Postwar Economic Perspectives

## IV. Aftermath of the War

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*This article concludes a series summarizing a study of postwar perspectives undertaken to cast light on the setting for planning social security measures. In the three preceding issues, discussion dealt with the postwar outlook in terms of experience after World War I and of economic trends just before World War II; here, postwar projections are based on the war economy. As in all Bulletin articles, expressions of opinion represent views of the author and do not necessarily reflect conclusions of the Social Security Board.*

THE ROAD from the prewar slump in 1940 to hypothetical full employment in 1950 leads over the hump of the war boom. This road has three sections:

*The upward slope:* Mobilization of human and technical resources for total war; full utilization of the idle labor force and productive facilities, and expansion of both far beyond the peacetime pattern.

*The high plateau and peak:* All-out war economy; more-than-full employment; diversion of 40 to 45 percent of the gross national product to the war.

*The downward slope:* Economic and military demobilization; return to peacetime patterns of life and work; shift of production from swords to ploughshares.

Only after it has completed the descent from the peak of war effort to the valley of peacetime normalcy will the United States be able to resume its long-range ascent to higher and higher standards of production and consumption.

On the last lap of this journey, the Nation will not necessarily retrace previous steps. As after all the major wars in the past, the comparatively brief spell of the war economy is bound to exercise a deep influence on the economic life of the United States, and it is likely that there will be a break between the long-range trends before the war and those prevailing after its end. To visualize postwar

economic perspectives, it is necessary to analyze the influence of the war on the postwar labor force, on employment, hours of work, the productivity of labor, the gross national product, wages, and so forth, and to investigate the probable effect of the war economy and its sudden end on the economic climate during and after reconversion.

### The Labor Force

Expansion of the labor force, including the armed forces, began in the middle of 1941, before the United States entered the war. Although no general shortage of labor was then in sight, work opportunities increased under the impact of the defense program, Selective Service enrolled about

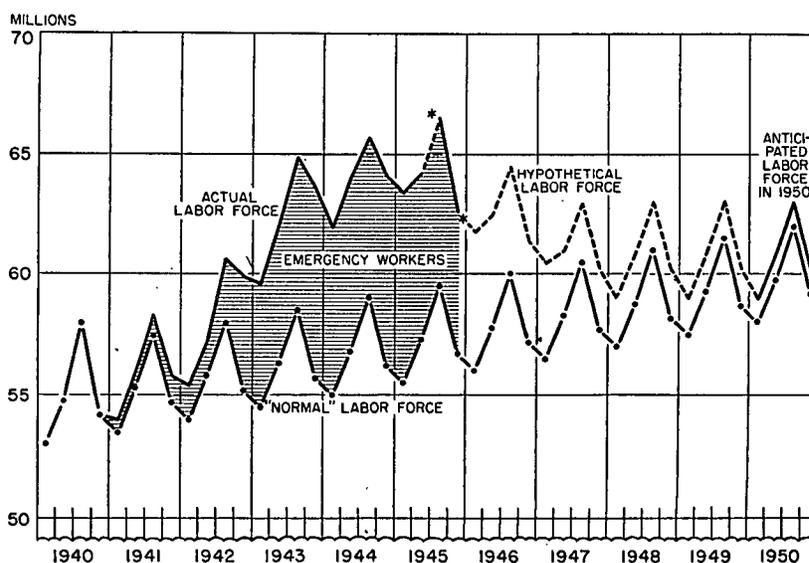
100,000 men a month, and some "non-workers" began to look for jobs (table 1 and chart 1). The growth of the labor force was greatly accelerated after Pearl Harbor. By the end of 1942 the labor force included about 5 million persons who would not have had or sought paid work under normal conditions. The number of these emergency workers rose to more than 6 million by the summer of 1943, to 7 million in 1944, and continued to rise in 1945. As shown in an earlier article in this series, most of the wartime addition to manpower is temporary.<sup>1</sup> The problem here is to examine the probable course of the readjustment of the overexpanded labor force to peacetime conditions.

Changes in the labor force from 1945 to 1950 may follow various patterns. The general tendency will probably be toward less-than-seasonal gains in spring and more-than-seasonal losses in autumn during several years of transition. It is also possible that the labor force will decrease for 2 or 3 years and then remain stable for several years except for seasonal variations (chart 1).

The reduction of the surplus labor force may be painful for millions of individuals. Some workers will draw unemployment benefits for a time

<sup>1</sup> See the *Bulletin*, January 1946, pp. 10-11.

Chart 1.—Expansion of the labor force during the war and its reduction during reconversion



\*—\* Revised labor-force series.

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while they are vainly seeking peacetime jobs; others will retire and draw their old-age and survivors insurance benefits. Some persons who are squeezed out of the labor market will be in need of public assistance. On the other hand, a large part of the readjustment may be effected by retardation in the influx of new workers. In ordinary years, several million persons enter or reenter the labor market. If the number of entries is curtailed for some time by a million a year, while the number of exits remains as usual, a large part of the surplus labor force may disappear, with relatively little individual hardship.

Curtalement of the labor force is as essential for reconversion as recruitment of emergency workers was vital for economic mobilization in the early phase of the war. Curtalement of total manpower after the war, however, must be accompanied by expansion of the civilian labor force, just as expansion of total manpower during the war was accompanied by a decline in the number of persons available for civilian jobs.

The following figures for 1946-50 illustrate a possible course in the readjustment of the labor force from the peak in 1944 to the peacetime pattern suggested in preceding articles in this series:<sup>2</sup>

Year	Annual average (in millions of persons)		
	Total manpower	Armed forces	Civilian labor force
1940.....	54.5	0.5	54.0
1944.....	63.9	11.2	52.7
1945.....	63.0	11.0	52.0
1946.....	61.0	4.0	57.0
1947.....	60.4	3.0	57.4
1948.....	60.0	2.5	57.5
1949.....	60.0	2.0	58.0
1950.....	60.0	2.0	58.0

## Employment

Because of variations in the rate of unemployment, changes in employment during the war have differed from labor-force changes. For a simi-

<sup>2</sup> This projection is essentially tied to the concept of labor force as defined by the 1940 census. Figures should be revised upward if the new definition of labor force used in the revised series of monthly labor-force surveys is used.

lar reason, changes in employment are likely also to differ from the hypothetical changes in the size of the labor force during the reconversion.

Total employment, including the armed forces, skyrocketed from 47.0 million in 1940 to 63.0 million in 1944 and is estimated at 57.5 million in 1950, allowing 2.5 million for "float" or frictional unemployment. Civilian employment rose from 46.5 million in 1940 to 51.8 million in 1944 and is estimated at 55.5 million in 1950. The following figures, which are in harmony with our projections of the labor force, illustrate the possible course of transition of civilian employment from the war pattern to peacetime conditions.<sup>3</sup>

<sup>3</sup> Figures for civilian labor force and employment should be increased if the new definition of labor force used in the revised series of the monthly labor-force survey is substituted for the definition of the 1940 census.

Year	Annual average (in millions of persons)		
	Civilian labor force	Civilian employment	Unemployment
1940.....	54.0	46.5	7.5
1944.....	52.7	51.8	.9
1945.....	52.0	50.8	1.2
1946.....	57.0	55.0	2.0
1947.....	57.4	54.9	2.5
1948.....	57.5	54.5	3.0
1949.....	58.0	55.2	2.8
1950.....	58.0	55.5	2.5

In this projection, unemployment in 1946 is estimated at somewhat less than the theoretical frictional minimum of 2.5 million, with a slight rise above this minimum in 1948, when the first rush of buying immediately after the war will have ended. It must be stressed that this is only one of many conceivable patterns of transition. It makes little difference, however, whether the probable moderate increase in unemployment in

Table 1.—The labor force and employment, 1939-45

[In thousands]

Year and month	Manpower, total	Armed forces	Civilian labor force			Unemployment	Civilian employment		
			Total	Male	Female		Total	Male	Female
1939									
January.....	51,900	340	52,300	39,800	12,500	9,000	43,300		
April.....	53,400	350	53,050	40,150	12,900	8,850	44,200		
July.....	56,400	380	56,020	42,320	13,700	8,720	47,300		
October.....	54,000	390	53,610	40,510	13,100	7,010	46,600		
1940									
January.....	52,500	430	52,070	39,470	12,600	7,670	44,400		
April.....	53,770	460	53,310	40,220	13,090	7,800	45,510	34,250	11,260
July.....	56,940	520	56,420	42,570	13,850	8,410	48,010	36,680	11,330
October.....	54,570	730	53,840	40,610	13,230	6,530	47,310	35,850	11,460
1941									
January.....	53,250	900	52,350	40,010	12,340	6,800	45,550	34,820	10,730
April.....	54,490	1,400	53,090	40,230	12,860	5,810	47,280	35,920	11,360
July.....	58,350	1,800	56,550	42,150	14,400	5,240	51,310	38,570	12,740
October.....	56,070	2,000	54,070	39,940	14,130	3,460	50,610	37,620	12,990
1942									
January.....	55,070	2,100	52,970	39,720	13,250	3,890	49,080	36,910	12,170
April.....	56,850	3,000	53,850	39,710	14,140	2,740	51,110	37,820	13,290
July.....	60,670	3,900	56,770	41,220	15,550	2,430	54,340	39,710	14,630
October.....	59,830	5,200	54,630	38,820	15,810	1,460	53,170	37,930	15,240
1943									
January.....	59,720	7,000	52,720	36,850	15,870	1,370	51,350	36,040	15,310
April.....	60,940	8,400	52,540	35,990	16,550	950	51,590	35,470	16,120
July.....	65,340	9,300	56,040	37,380	18,660	1,290	54,750	36,670	18,080
October.....	63,080	10,000	53,080	35,310	17,770	910	52,170	34,820	17,350
1944									
January.....	61,930	10,500	51,430	34,640	16,790	1,080	50,350	33,990	16,360
April.....	63,060	11,000	52,060	34,880	17,180	770	51,290	34,440	16,850
July.....	66,600	11,600	55,000	35,890	19,110	1,000	54,000	35,410	18,590
October.....	64,770	11,900	52,870	34,410	18,460	630	52,240	34,100	18,140
1945									
January.....	62,860	11,900	50,960	33,650	17,310	840	50,120	33,160	16,960
April.....	64,030	12,100	51,930	33,840	18,090	770	51,160	33,410	17,750
July.....	67,520	12,300	55,220	35,140	20,080	950	54,270	34,660	19,610
October.....	63,710	10,600	53,110	34,590	18,520	1,550	51,560	33,660	17,900

<sup>1</sup> New series.

Source: Beginning with April 1940, revised estimates of the Bureau of the Census based on monthly labor market surveys. For January 1939-January 1940, estimates based on variations in agricultural and non-agricultural employment as recorded by the Bureau of Labor Statistics and the Department of Agriculture, adjusted in accordance with the respective series of the War Manpower Commission.

Table 2.—Distribution of employment, 1939-45

[In thousands]

Year and month	Agriculture	Government	Employment in private nonagricultural establishments adjusted for seasonal variations						
			Total	Manufacturing	Mining	Transportation and public utilities	Construction	Trade	Finance, service, and miscellaneous
1939									
March.....		3,930	25,837	9,738	875	2,870	1,711	6,523	4,120
June.....		3,960	26,272	9,924	855	2,905	1,828	6,599	4,161
September.....		4,020	26,817	10,334	874	2,935	1,794	6,670	4,210
December.....		4,090	27,167	10,641	923	2,990	1,603	6,791	4,219
1940									
March.....		4,090	26,926	10,439	916	2,990	1,496	6,821	4,264
June.....	11,000	4,110	27,265	10,458	908	2,998	1,736	6,865	4,300
September.....		4,160	28,010	11,017	918	3,025	1,758	6,951	4,341
December.....	8,700	4,200	29,195	11,589	926	3,076	2,135	7,076	4,393
1941									
March.....	7,620	4,310	30,097	12,174	943	3,131	2,260	7,192	4,397
June.....	10,100	4,430	31,324	13,032	970	3,254	2,239	7,388	4,441
September.....	9,300	4,530	32,240	13,580	1,000	3,331	2,327	7,543	4,454
December.....	7,500	4,650	32,212	13,748	1,002	3,367	2,115	7,487	4,493
1942									
March.....	7,690	4,870	32,522	14,255	976	3,382	2,055	7,331	4,523
June.....	10,230	5,140	33,060	14,865	981	3,419	2,057	7,206	4,532
September.....	8,860	5,430	33,740	15,644	982	3,448	2,077	7,227	4,382
December.....	7,380	5,700	34,197	16,333	933	3,525	2,041	7,136	4,229
1943									
March.....	7,230	5,910	34,155	16,831	915	3,574	1,604	7,110	4,121
June.....	9,820	5,960	33,813	16,908	893	3,620	1,263	7,017	4,112
September.....	9,050	5,810	33,665	17,051	876	3,633	1,020	7,006	4,079
December.....	6,820	5,980	33,498	16,995	863	3,687	864	6,962	4,127
1944									
March.....	6,910	5,900	33,222	16,642	852	3,780	737	7,046	4,165
June.....	9,560	5,900	32,870	16,093	848	3,765	677	7,012	4,475
September.....	8,670	5,890	32,500	15,771	824	3,732	635	7,058	4,480
December.....	7,090	6,080	32,082	15,552	802	3,790	619	7,015	4,304
1945									
March.....	7,290	6,030	32,430	15,445	796	3,846	691	7,214	4,438
June.....	8,300	5,953	31,596	14,534	794	3,830	845	7,004	4,589
September <sup>1</sup> .....	8,800	5,933	29,401	12,097	784	3,834	945	7,138	4,603
December <sup>1</sup> .....	7,192	5,769	30,550	11,914	802	3,896	1,042	7,962	4,936

<sup>1</sup> Without seasonal adjustment.

Source: War Manpower Commission, *Manpower Statistics*, July 1945. For September and December 1945, *Monthly Labor Review*.

that phase of the postwar economy is visualized in 1948 or somewhat earlier or later.

All in all, the number of civilian jobs in 1950 is estimated at almost 20 percent more than in 1940 and 7 percent more than in 1944. Since, however, the hypothetical figure for 1950 is related to a population about 5 percent larger than in 1944, a 7-percent increase in civilian employment from 1944 to 1950 implies only that, in relation to population, there should be about as many civilian jobs in 1950 as in 1944.

This statement does not mean that a peacetime job should be substituted for each terminated war job in the course of the industrial reconversion. To ensure jobs to veterans returning to civilian life, the civilian economy should expand through the whole period of military demobilization. Such a course would be impossible if

civilian production were increased to the limit prematurely, in the early phase of reconversion. In other words, a smooth reconversion demands a lag between contraction of war production and the expansion of peacetime activities.

The task of reconversion, in terms of employment, will differ from industry to industry. In some industries, the level of activity at the end of the war was well above the goal of the peacetime full employment, and the task of reconversion will be to deflate wartime expansion. In others, the level of production was far below the peacetime patterns; here the task is to increase production. For the United States as a whole, increases in civilian employment will probably exceed decreases.

Civilian employment during the war was characterized by precipitous growth of manufacturing industries,

especially production of airplanes, ships, tanks, guns, and munitions; expansion of Government agencies; and contraction of building activities (table 2). In comparison with the hypothetical demand for labor in 1950, Government and manufacturing each had a surplus of 2 million jobs in 1944. On the other hand, 1944 recorded an acute shortage of labor in agriculture, building construction, and trade and service industries in comparison with post-war requirements.

For salary and wage workers in private nonagricultural establishments, full employment in 1950 presumes some 34.9 million jobs, 2.2 million more than in 1944. With reservation for a wide margin of error in a projection of this type, the demand for labor in 1950 may differ from that in 1944 as follows:

Industry	Number of employees (in thousands)		
	1944 <sup>1</sup>	1950, hypothetical <sup>2</sup>	Increase (+) or decrease (-) from 1944 to 1950
Total.....	32,670	34,900	+2,230
Manufacturing.....	16,010	14,000	-2,010
Mining.....	830	900	+70
Construction.....	670	3,000	+2,330
Transportation and public utilities.....	3,770	3,500	-270
Trade.....	7,030	8,000	+970
Finance, service, miscellaneous.....	4,360	5,500	+1,140

<sup>1</sup> See table 2, column 4.

<sup>2</sup> For the basis of these projections, see the *Bulletin*, January 1946, pp. 15-16.

### Hours of Work

Because of the labor shortage, hours of work were increased during the war. Many industries—especially munitions industries—shifted from the customary 40-hour week to 48 or 50 hours. The average weekly number of hours of work in manufacturing industries increased from 37.5 in 1940 to 45.5 in 1944. The input of work of factory workers rose from 412.5 million man-hours per week in 1940 to 728 million in 1944. The increase in man-hours was 76.5 percent, as compared with a rise of 44.5 percent in man-years of employment.

Considerable increases in hours of work were also recorded in mining, transportation, public utilities, and service industries. All in all, in 1944

approximately 20 million persons in nonagricultural establishments averaged an extra hour a day, as compared with prewar working hours, and their additional work was equivalent to the employment of 4 million workers. That figure rises to 5 million when account is taken of the strenuous work on farms during the war.<sup>4</sup> Thus, the 51.8 million persons employed through 1944 performed the number of man-hours of work that would have required 56.8 million workers under prewar work schedules. In 1940, employment represented some 46.5 million man-years of work, so that the rise from 1940 to 1944 in "normal" man-years of work, with the prewar work schedule, was more than 22 percent.

From the standpoint of social progress, the wartime increase in the workweek was a deplorable set-back, wiping out the results of a quarter century's efforts to secure better working hours and greater leisure. Probably the trend toward further reduction of the workweek will be resumed when agreements have been reached on wages and salaries. It is also likely that paid vacations will become increasingly common. The trend toward shorter hours of work may be somewhat offset, however, by reduction of part-time work, which before the war kept the average weekly number of hours of work per worker below 40. The over-all decline in average hours of work from 1940 to 1950 may therefore be comparatively small, say 3 percent. Using that figure, the changes outlined above in civilian employment would result in the following changes in input of work in terms of "1940" man-years.

Year	"1940" man-years (in millions)	Index 1940=100
1940.....	46.5	100
1944.....	56.8	122
1950.....	53.8	115

Thus, full employment in 1950 implies about 5.3 percent fewer man-hours of civilian labor than were per-

<sup>4</sup> This estimate makes no allowance for overtime work of self-employed persons and members of their families in non-agricultural pursuits and for increased hours of work in industrial establishments for which no reliable statistics are available.

formed in 1944: release of servicemen and growth of population are likely to be more than offset by withdrawal of emergency workers and reduction in hours of work.

### Productivity of Labor

Variations in the productivity of labor in wartime are usually concealed by changes in patterns of production, deterioration of quality, and erratic movements of uncontrolled prices. Though the achievements of munitions industries, especially in airplane production and shipbuilding, have been spectacular, it is questionable whether other industries have kept pace during the war with the long-range trend of technological progress.

Although war contracts were heavily concentrated in durable-goods industries, some nondurable goods also were required for military purposes. The part played by war production in the reported gains in output per man-hour in the two groups of industries is unknown, but it is recognized that within an industry war contracts were awarded to the most efficient and best-equipped factories; that war production had priority in obtaining skilled labor, raw materials, and transportation; and that war plants had the advantage of mass production of standardized goods. On the other hand, producers of civilian goods had to struggle with all kinds of shortages and bottlenecks.

It is likely, therefore, that war production had the lion's share in the visible over-all gain in output per man-hour and that technological progress in civilian production as a whole was insignificant. It is even questionable whether any appreciable increase in productivity of labor could be discerned in this field of production if deterioration in the quality of finished goods is taken into account.<sup>5</sup> In any event, it is rather doubtful whether the productivity of labor in peacetime industries increased from 1940 to 1945 at the annual rate of 2.5 percent corresponding to the long-

<sup>5</sup> Cf. "National Product, War and Prewar: Some Comments on Professor Kuznets' Study and a Reply by Professor Kuznets," *Review of Economic Statistics*, August 1944, pp. 109-135 (articles by Milton Gilbert, Hans Staehle, W. S. Woytinsky, and Simon Kuznets).

range trend in technological progress in the United States. In the long run, however, the experience gained in war production is likely to accelerate technical and economic progress generally, as it did after the Civil War and World War I. A comparatively rapid rise in the productivity of labor is likely to occur in the years just ahead. Therefore, if distribution of the labor force by industries and occupation remained the same as in 1944, the over-all output per man-hour in 1950 might be at least 15 percent higher than in 1944. This estimate is, however, subject to an important reservation: industrial and occupational distribution of the labor force is bound to change when the Nation shifts from war to a peacetime economy.

As far as the national product is concerned, gains in the productivity of labor will be partly offset by the shift of millions of workers from high-wage and high-output industries to low-wage and low-output pursuits. The Nation's losses from such shifts may be measured very roughly by losses in earnings of workers. According to current wage rates, workers shifting from the machinery and iron and steel industries to textile factories would lose about 40 percent of their wartime hourly take-home pay; those shifting from factory work to building construction or retail trade would take cuts of 15 percent; women leaving factory jobs for domestic service would receive less than half their wartime earnings. Assuming that about 30 percent of the workers change their jobs in the course of reconversion and that their wartime hourly output declines 30 percent (proportionately to their earnings), the over-all output per man-hour would rise from 1944 to 1950 not by 15 percent but by only 4.6 percent. Under this assumption, the transition to a peacetime economy may be described roughly by the following indexes:

Item	1944	1950
Man-hours of civilian work performed.....	100.0	94.7
Productivity of labor (output per man-hour).....	100.0	104.6
Output of civilian goods and services.....	100.0	99.1

Table 3.—Gross national product and national income, 1939–June 1945

[In billions, at current prices]

Item	1939	1940	1941	1942	1943	1944	1945
Gross national product or expenditures:							
Total	\$88.6	\$97.0	\$120.2	\$152.3	\$187.4	\$197.6	\$197.3
Government, total	16.0	16.7	26.5	62.7	93.5	97.1	83.0
Federal: War	1.4	2.7	13.5	50.3	81.3	83.7	69.0
Nonwar	6.5	6.1	5.3	5.0	4.9	5.7	6.1
State and local	8.1	7.9	7.9	7.4	7.4	7.7	7.9
Available for private use	72.6	80.4	93.7	89.6	93.9	100.5	114.3
Private gross capital formation	10.9	14.7	19.1	7.6	2.5	2.0	9.4
Consumers' goods and services	61.7	65.7	74.6	82.0	91.3	98.5	104.9
Durable goods	6.4	7.4	9.1	6.3	6.6	6.7	7.4
Nondurable goods	32.6	34.4	40.1	47.9	55.1	60.0	64.4
Services	22.7	23.9	25.4	27.8	29.7	31.8	33.1
Relation of gross national product to national income:							
Gross national product	88.6	97.0	120.2	152.3	187.4	197.6	197.3
Less: Business taxes, etc.	-10.4	-12.4	-18.5	-23.1	-27.4	-29.7	-28.6
Less: Capital charges, etc.	-7.0	-7.3	-7.8	-8.2	-8.5	-8.7	-8.7
Adjustment	-4	+5	+3.0	+1.2	-2.1	+1.5	+1.0
Equals: National income	70.8	77.8	96.9	122.2	149.4	160.7	161.0
National income by distributive shares:							
Total	70.8	77.8	96.9	122.2	149.4	160.7	161.0
Compensation of employees	48.1	52.4	64.5	84.1	106.3	116.0	114.5
Salaries and wages	44.2	48.7	60.8	80.8	103.1	112.8	111.4
Supplements	3.8	3.7	3.7	3.3	3.2	3.2	3.1
Net income of proprietors	11.2	12.2	15.8	20.6	23.5	24.1	25.6
Agriculture	4.3	4.4	6.3	9.7	11.9	11.8	12.5
Nonagriculture	6.9	7.8	9.6	10.9	11.6	12.3	13.1
Interest and net rents	7.4	7.5	8.0	8.8	9.7	10.6	11.8
Net corporate profits	4.2	5.8	8.5	8.7	9.8	9.9	9.0
Dividends	3.8	4.0	4.5	4.3	4.3	4.5	4.5
Savings	.4	1.8	4.0	4.4	5.5	5.4	4.5
Disposition of national income:							
Total	70.8	77.8	96.9	122.2	149.4	160.7	161.0
Add: Transfer payments	+2.4	+2.6	+2.5	+2.7	+3.2	+5.3	+8.1
Less: Social security contributions	-2.0	-2.1	-2.6	-3.2	-3.8	-3.9	-3.8
Less: Corporate savings	-4	-1.8	-4.0	-4.4	-5.5	-5.4	-4.5
Equals: Income payments to individuals	70.8	76.5	92.7	117.3	143.1	156.8	160.7
Less: Personal taxes, etc.	-3.1	-3.3	-4.0	-6.7	-18.6	-19.4	-21.0
Equals: Disposable income of individuals	67.7	73.2	88.7	110.6	124.6	137.4	139.7
Consumers' expenditures	61.7	65.7	74.6	82.0	91.3	98.5	104.9
Net savings of individuals	6.0	7.5	14.2	28.6	33.3	38.9	34.9

Source: Survey of Current Business, March 1943–February 1945, and February 1946.

With allowance for a considerable margin of error, it appears that a full-employment civilian economy in 1950 would yield an over-all civilian output somewhat less than in 1944.

### Gross National Product

In addition to goods and services produced by the civilian economy, the gross national product includes services of the armed forces. This item would have been hardly less than \$25 billion if subsistence costs of the armed forces were added to their salaries and the sum interpreted as an equivalent of their services. However, only the money payments to the armed forces amounting to \$14 billion are listed in 1944 gross national product as determined by the Department of Commerce. The comparable item for 1950 may amount to \$3 billion. Excluding the services of the armed forces, the gross national product in 1944 amounted to \$184 billion. With the slight decline as suggested above, the value of goods and services pro-

duced in the civilian sector of the national economy would be close to \$182 billion in 1950. Adding \$3 billion for services of the armed forces, the total would be \$185 billion—at 1944 prices, which is slightly more than that indicated by another projection using 1940 as a bench mark without regard to changes in national income during the war. The disparity between the two computations falls within the unavoidable margin of error. The essential point is that full employment in 1950 does not postulate that the gross national product must be as great as in 1944 but only that it should not lag more than 10 percent behind what it was at the peak of the war effort. A reconversion from the war boom to peacetime full employment presumes therefore a downhill movement. A smooth and successful reconversion requires that the descent be not too abrupt and that it stop when production returns to the level of peacetime prosperity.

Moreover, the slope may be somewhat steeper than it appears from comparison of the gross national product of \$199 billion in 1944 with the hypothetical \$180 billion in 1950. With correction for the growth in population and the long-range trend in technological progress, \$180 billion in 1950 represents hardly more than \$165 billion in 1946. Reconversion to peacetime full employment therefore implies an appreciable contraction of the overexpanded war economy in terms of output per head of population or per unit of available productive forces.

In fact, because of expansion of active manpower (including the armed forces) during the war and the longer workweek, the input in man-hours was at least 20 percent higher in 1944 than it would be in full employment under normal conditions. The return to normalcy would require a considerable cut in input of work as measured in man-hours, and this postulate is expressed by the contraction that would occur if the gross national product sinks from \$199 billion to \$165 billion.

The task of reconversion is not to minimize this decline during the shift to a peacetime economy but to effect the necessary readjustment in such a way as to avoid a deflationary spiral and to ensure a smooth upward expansion of the civilian economy from its hypothetical low point.

To visualize the road from war to peace in terms of annual variations of gross national product and national income, their variations during the war should be recapitulated (table 3). The gains from 1939 to 1941 marked essentially the liquidation of the pre-war slump which had interrupted the recovery that had been in progress since the spring of 1933. In fact, appreciable rise of employment and expansion of production related to the war did not begin until the second half of 1941. The subsequent growth of the national product, expressed in dollars, reflected to some extent the rise of prices, but it is practically impossible to isolate this factor.\*

The indexes of wholesale prices and of consumers' prices prepared by the

\* Cf. Kuznets, Simon, *National Product in Wartime*, National Bureau of Economic Research, 1945, pp. 38 ff.

Bureau of Labor Statistics rose above the 1939 averages as follows:

Year	Index of wholesale prices	Index of goods purchased by wage earners
1939.....	100	100
1940.....	102	101
1941.....	113	106
1942.....	128	117
1943.....	134	124
1944.....	135	126
1945.....	137	128

If half the gross national product is deflated by the wholesale price index and the other by the consumer price index, nominal and real gross national income increased as follows:

Year	Nominal gross income, current prices (in billions)	Real gross income, 1944 prices (in billions)
1939.....	\$88.6	\$115.6
1940.....	97.0	124.7
1941.....	120.2	143.2
1942.....	152.3	162.2
1943.....	187.4	189.6
1944.....	197.6	197.6
1945.....	197.3	194.3

If the gross national product in 1950 amounts to \$180 billion, at 1944 prices, it will be not much lower than in 1943. With the regearing of production to peacetime needs, it would provide a higher standard of living than the United States has ever known.

In table 4, a distribution of the hypothetical gross national product in 1950 is contrasted with that in 1944. The hypothetical distribution of consumers' expenditures among durable goods, nondurable goods, and services shown in this table rests on the following considerations. Because of the return of servicemen to civilian life

Table 4.—Gross national product in 1944 and 1950

[In billions, at 1944 prices]

Item	1944 <sup>1</sup>	1950 <sup>2</sup>
Gross national product, total.....	\$197.6	\$180.0
Government share.....	97.1	28.4
Federal.....	89.4	17.6
State and local.....	7.7	10.8
Available for private use.....	100.5	151.6
Private gross capital formation (business share).....	2.0	22.8
Consumers' goods and services.....	98.5	128.8
Durable goods.....	6.7	14.5
Nondurable goods.....	60.0	70.0
Services.....	31.8	44.3

<sup>1</sup> Survey of Current Business, July 1945, p. 12.

<sup>2</sup> See the Bulletin, February 1946, p. 14 (figures in table 3, recomputed at 1944 prices).

Table 5.—Hypothetical changes in gross national product, 1944-50

[In billions, at 1944 prices]

Item	1944	1945	1946	1947	1948	1949	1950
Total.....	\$197.6	\$194.3	\$160	\$170	\$170	\$175	\$180.0
Government.....	97.1	81.8	50	35	32	30	28.4
Private use.....	100.5	112.5	110	135	138	145	151.6
Capital formation.....	2.0	9.2	20	30	28	25	22.8
Consumer goods and services.....	98.5	103.3	90	105	110	120	128.8

and cumulative effect of war and post-war marriages, the number of households will rapidly increase. Assuming a 15-percent rise in the number of consumer units and the same pattern of consumption as in 1944, the demand for consumers' goods and services would rise from \$98.5 billion in 1944 to \$113.3 billion in 1950 (\$7.7 billion for durable goods, \$69 billion for nondurable goods, and \$36.6 billion for services). An additional \$15.5 billion is assigned mainly to those fields of consumption which did not expand during the war—that is, to durable goods and to services. The trend would be to return to the pre-war pattern of distribution, but on a higher level.

The hypothetical changes in the distribution of national expenditures from 1944 to 1950 may be interpolated under the assumption that the liquidation of the war economy will contract production considerably in the last quarter of 1945 and the first half of 1946; that losses will be partly offset by the expansion of peacetime production in the second half of 1946; that the upward trend will continue through 1947; that the expansion will be slowed down in 1948 by a temporary set-back related to readjustment of prices; and that production will rise in 1949 and 1950.

This concept of general trends in the postwar economy may be combined with the assumptions of varying rates of change for different items of the gross national product (table 5). It is not unlikely, for example, that capital outlays will be particularly heavy in 1947 and decline slightly thereafter; that private consumption will be somewhat lower in 1946 than in 1945 and will expand after reconversion is completed; that Federal expenditures will drop in 1946 to about half the 1944 peak and decline gradually later.

The set-back in 1946 indicated in the projection in table 5 marks the

liquidation of the overexpansion of the economic system that is characteristic of wartime. With the withdrawal of temporary workers, reduction of hours of work, and return of workers from wartime jobs to less lucrative peacetime pursuits, national output of goods and services must go down and that decline may be only partly offset by the rising productivity of labor. This downward movement does not necessarily imply mass unemployment. On the contrary, the suggested variations in gross national product were computed under the assumption of nearly full employment of the available labor force as indicated in chart 1 and in projections for civilian employment on page 12.

As far as our figures rest on this computation they are hypothetical and to some extent illustrative of what would occur under the postulated conditions which may exist or not in the future. However, the hypothesis of an expansive economy in postwar years has not been picked up at random from the multitude of arbitrary assumptions. It has been selected rather on the basis of economic and historical analysis that pointed to this type of development as most probable. In this sense, figures in table 5 indicate the probable economic trends in the United States in the years ahead.

The probable national income for each year may be derived by deducting business taxes and capital charges from the hypothetical gross national product (table 6).

In these estimates, national income is 14 percent less in 1946 than in 1944, rises in 1947 to about 92 percent of the 1944 amount, and declines slightly in 1948. Such a set-back would parallel the anticipated variations in employment and would be somewhat analogous to the "primary postwar depression" in 1920-21. After World War I, however, the country went through a violent inflation followed by

Table 6.—Hypothetical changes in national income, 1944–50

[In billions, at 1944 prices]

Item	1944	1945	1946	1947	1948	1949	1950
Gross national product.....	\$197.6	\$194.3	\$160.0	\$170.0	\$170.0	\$175.0	\$180.0
Less: Business taxes, etc.....	-29.7	-28.2	-12.5	-13.0	-13.4	-13.8	-14.2
Less: Capital charges.....	-8.7	-8.6	-9.5	-9.7	-10.0	-10.4	-10.8
Adjustments.....	+1.5	+1.0					
Equals: National income.....	160.7	158.5	138.0	147.3	146.6	150.8	155.0

the collapse of prices, while this time the rise of prices has been kept under control both during the war and in the early phase of the reconversion. Unless the controls collapse, a setback in 1948 is likely to be less violent than in 1920–21. This assumption underlies projections of economic conditions in 1946–50 in this study.

### Wages

The war caused significant changes in the distribution of national income. Compensation of employees (including pay of the armed forces but excluding Government allowances to servicemen's dependents) increased from 67.4 percent of total national income in 1940 to 72.2 percent in 1944; the farmers' share rose from 5.7 percent to 7.3 percent, while that of proprietors in nonagricultural pursuits (nonincorporated business) fell from 10.0 percent to 7.7 percent. There was also a substantial decline in the relative share of interest and net rents (from 9.6 percent to 6.6 percent) and of net corporate profits (from 7.5 percent to 6.2 percent).

It is likely that the distribution of national income after the war will neither duplicate that of 1944 nor return to the prewar pattern. The new distribution will probably lie between these two extremes but be more like the prewar pattern. Table 7 shows a tentative distribution of hypothetical national income in 1945–50 under the assumption that the relative shares of employees and farmers, apart from annual fluctuations, decline in comparison with 1944 but remain somewhat higher than in 1940; that the share of interest and net rents is greater than before the war and increases steadily; that the share of proprietor income in nonagricultural industries and dividends increases, and that of nondistributed corporate profits (corporate savings) declines.

Salaries and wages of civilian work-

ers (excluding the armed forces but including civilians in public service) in 1950 are set in table 7 at \$99.3 (=102.3–3.0) billion, slightly more than the 1944 amount (\$98.8 billion). On the other hand, it is anticipated that, in terms of man-hours, the volume of civilian work will be appreciably less in 1950 than in 1944. Consequently it is assumed that average straight hourly wage rates in 1950 will be sufficiently higher than in 1944 to more than offset elimination of overtime bonuses and the shift of workers from high-wage war industries to less lucrative peacetime jobs.

Closer analysis shows that an upward revision of wage rates is not only compatible with the stability of prices but is a premise of such stability. In fact, though the national wage bill increased greatly during the war, hourly wage rates could not be adjusted adequately to the growing productivity of labor and the rising cost of living. The increase in the total was due mainly to the increase in employment, the longer workweek, overtime pay, and expansion of high-wage industries, and only to a small degree to the rise of basic wage rates.

In the manufacturing industries, for example, where the weekly wage pay roll increased, according to the Department of Commerce, from \$178

million in January 1939 to \$597 million in April 1945, \$116 million of the increase was due to increased employment, \$103 million to the longer workweek (apart from overtime pay and changes in inter-industry distribution of workers), and \$76 million to overtime pay and shift of workers to high-paying industries. Straight hourly wage rates rose 42.2 percent.<sup>7</sup> This average rate of increase was higher than that of the official cost-of-living index (30 percent, in round numbers) but hardly much higher than the actual advance of prices if the hidden inflation is taken into account. Thus, return to the 1939 industrial distribution of the labor force and 1939 hours would have cut the real hourly earnings of factory workers to the prewar level. In view of the rise in productivity of labor, this would mean a substantial decline in the relative share of workers in the value of the output. Apart from considerations of social policy, such a decline would threaten the equilibrium between production and consumption and undermine the stability of prices. During the war, prices have been adjusted to production costs, and it therefore seems logical that wage rates be revised after cessation of overtime work, elimination of wartime bottlenecks, and replacement of marginal emergency workers by regular personnel.

The trend in wages that conforms to the postulate of economic equilibrium and to the suggested projections of national output and employment may be estimated from the following considerations.

If the pay of the armed forces is

<sup>7</sup> *Survey of Current Business*, September 1945, p. 5.

Table 7.—Hypothetical changes in distributive shares of national income, 1944–50

[In billions, at 1944 prices<sup>1</sup>]

Item	1944	1945	1945	1947	1948	1949	1950
National income.....	\$160.7	\$158.5	\$138.0	\$147.3	\$146.6	\$150.8	\$155.0
Compensation of employees:							
Salaries and wages.....	112.8	109.7	91.5	98.7	98.2	100.3	102.3
Supplements.....	3.2	3.1	2.8	3.2	3.1	3.0	3.1
Net income of proprietors:							
Agriculture.....	11.8	12.3	9.7	10.6	10.6	10.7	10.8
Nonagriculture.....	12.3	12.9	11.0	11.8	12.5	13.0	13.5
Interest and net rents.....	10.6	11.6	11.0	12.5	13.2	14.3	15.5
Net corporate profits:							
Dividends.....	4.5	4.4	5.9	5.5	5.4	6.2	7.0
Savings.....	5.4	4.4	6.1	5.0	3.6	3.3	2.8

excluded from total salaries and wages as shown in table 7, earnings of civilian workers would vary approximately as follows:

[In billions, at 1944 prices]

1944	1945	1946	1947	1948	1949	1950
\$99	\$97	\$85	\$93	\$94	\$96	\$99

According to this projection the civilian pay roll would decline about 12 percent in 1946 and return to the 1944 level in 1950. This variation in pay roll should be compared with the number of hours of work performed. It has been assumed that withdrawal of emergency war workers would proceed rapidly in 1946-47 and at a declining rate thereafter, that in 1948-50 withdrawals will be offset by the growth of the population, and that average weekly hours of work in 1950 will be about 3 percent less than in 1940. According to these assumptions, the number of hours of civilian work would drop 5 or 6 percent from 1944 to 1948 and fluctuate in a narrow range thereafter.

Under these conditions, average hourly earnings would drop slightly—perhaps 4 or 5 percent—in 1946 but recover rapidly. They may be in 1949 5 to 6 percent higher than in 1944 and rise 3 percent in 1950. The rise in individual industries should be considerably larger, perhaps between 15 and 20 percent in 1946 to offset the effect of elimination of overtime bonuses and of shifts of workers from high-wage to low-wage industries.

These figures are, of course, purely illustrative and are intended merely to show one of the patterns of variation in wages that conforms to the assumed pattern of economic development after the war.

### Menace of Deflation

Reconversion from war to a peacetime economy implies a sudden reduction in Federal expenditures and production. It might appear that the shrinkage in jobs and current earnings of workers would cause a general contraction of consumer expenditures. In this event, lay-offs in munitions factories would be followed by lay-offs in civilian-goods industries, and a secondary wave of unemployment would sweep over the country.

Moreover, the productive capacity of industrial plants expanded during the war might appear too large for utilization under peacetime conditions. After postponed repairs and necessary adjustments are completed, there would be no further demand for investments. Production of capital goods would be cut to the bone or discontinued, leading to further growth of unemployment, further loss in purchasing power, and eventual collapse of agricultural prices. As in the 1930's, depression in the industrial sector of the economic system would be aggravated by the misery of the farmers.

Such, in general terms, is the theory of the *deflationary spiral* in the course of reconversion, a theory that suggested the possibility of unemployment totaling 6-8 million in the last quarter of 1945, 8-10 million in the first quarter of 1946, and 12-15 million in 1947.

According to this theory, war savings would be no defense against the coming deluge. Because of the lack of opportunities for profitable investment, the business reserves piled up during the war would be frozen. Because of the fear of further deterioration in business conditions and work opportunity, private consumers would be reluctant to spend their savings.

Contrary to this theory, the end of the war failed to touch off a deflationary spiral. Not only was there no contraction in civilian consumption, but department-store sales skyrocketed and reached in January 1946 a level 15 to 20 percent higher than in the same season in 1945. The demand for investment goods showed a similar trend. Unemployment increased slightly in comparison with 1943-44 but throughout 1945 remained below the theoretical normal "float" of 2.0 or 2.5 million. It rose somewhat in January-February 1946 but was still below the theoretical minimum for this season. The comparatively light unemployment in this phase of reconversion is the more remarkable because reconversion was proceeding under rather unfavorable conditions. Because of the sudden surrender of Japan and the unexpected speed in repatriation of troops, the supply of civilian labor increased more rapidly than had been assumed in the most pessimistic projections. At the same

time, international relations remained unsettled, perspectives of foreign trade and investments were uncertain, labor disputes slowed down reconversion in key industries, and the cut in 1946 taxes led some industrialists to postpone expansion of production until after New Year's.

In spite of these handicaps, reconversion has followed, as after all the major wars in the past, a pattern characterized by an expansion almost immediately after the end of the fighting. The theoretical explanation of this pattern is simple. The war originates expansive forces in the economic system and, as long as these forces prevail, basic dislocations created by the war economy remain hidden. The expansive character of a postwar economy is due to the fact that after a major war a comparatively long period must elapse before output catches up with the accumulated demand. A deflationary spiral, which presumes that the demand lags behind output, cannot develop during this period; it develops later, not as a direct aftermath of the war economy but as a result of dislocations accumulated in the postwar expansion.<sup>9</sup>

Apart from business taxes and capital charges, the value of *civilian* production during a war equals wages, interest, and profits paid out in the respective industries. Part of the purchasing power of people engaged in these industries is taxed away and part is diverted to saving, reducing their share in civilian goods to, say, half of the total available output. The other half of the output goes to people engaged in the war effort.

Assume that, when a war ends, military expenditures, war taxes, and wartime controls are abolished overnight. In such an event the demand for civilian goods will be controlled by the current earnings of the population engaged in the civilian sector of the economy, plus the reduced expenditures of the rest of the Nation, financed by savings, borrowing, relief, and the like. The total necessarily exceeds the value of available goods and services. A *sellers' market* not only stimulates production of consumer goods on a steadily increasing

<sup>9</sup> See the *Bulletin*, December 1945, pp. 26-27.

scale but also opens bright opportunities for investment and calls for expanding production of capital goods. Even if expansion of economic activities is temporarily interrupted by shortage of raw materials, maladjustments in prices and wages, changes in production patterns, and the like, the general trend in the economic system is necessarily upward. In brief, after a major war the economic system tends to expand to the limits of its productive capacity, practically to the limits of the available labor force, which makes mass unemployment in this phase of economic development highly improbable, if not impossible.

How long may such a situation last? And what is the chance of stabilizing production at the level of postwar full employment?

These questions lead to the problem of deferred demand and accumulated purchasing power as an aftermath of the war economy.

### War Savings

One of the most important consequences of the war, indeed one of the decisive factors of the postwar economic development of this country, is the unprecedented accumulation of savings and reserves by individuals and business enterprises.

### The Origin of War Savings

To appraise the role of war savings in the postwar economy, one should recall conditions that accounted for the accumulation of savings during the war.

Individuals generally use part of their "disposable income"<sup>9</sup> for direct consumption and part for savings and investment. Eventually money put aside at some previous time flows back to consumption; such belated spending is the essential purpose of saving. "Net savings" represent the remainder of current savings after subtracting the expenditure of formerly accumulated reserves. As long as net savings of individuals and incorporated enterprises find their way into investments, and Government expenditures

<sup>9</sup> Disposable income of individuals is determined by deducting from the aggregate of national income corporate savings (undistributed profits), social security contributions, and personal and income taxes.

chargeable to the gross national product are met by taxes levied on current income, the total demand for consumer and capital goods is in balance with the aggregate of wages, profits, other income, and capital charges, and this aggregate, in turn, is in balance with the total amount of prices for all goods and services produced. In this event, producers may sell their products at the prices they have anticipated and are therefore willing to risk further investment. On the contrary, if individuals and business put aside more money than is absorbed by investment, total expenditures must fall short of the current supply of goods and services—the value of the national output—and available goods and services cannot be sold at the prices expected by producers. Since this situation is likely to cause a deflationary contraction of economic activities, oversavings may be described as a "deflationary gap." On the other hand, an "inflationary gap" develops when the aggregate of goods and services available for private use fails to keep pace with a rise in disposable income.

A slight surplus of disposable income over available goods and services does not necessarily endanger equilibrium of the economic system but serves rather to stimulate its expansion. On the other hand, a considerable surplus can throw the whole structure of prices out of balance. This danger becomes imminent in a war economy when the disposable income of individuals increases under the impact of Government expenditures, while the supply of consumer goods and services declines.

Theoretically, heavy taxation is the simplest method for closing or narrowing the inflationary gap. This method, however, cannot be used indefinitely; a point is reached at which the free purchasing power of individuals cannot be taxed away without destroying the economic incentive for work. Then it is left to individuals to close the inflationary gap by saving their surplus earnings or lending them to the Government. They can lend their savings to the Nation directly, by buying bonds, or indirectly, through banks. Even hoarding currency is a form of lending to the Government, since each banknote is a loan obligation. Generally speaking, each dol-

lar put aside by consumers in any way lessens inflationary danger. What is essential is the consumer's decision to abstain—at least temporarily—from using a part of his current purchasing power.

### The Amount of War Savings

All in all, the net savings of individuals and business enterprises during a war approximate the sum of net capital formation and the part of war expenses met through borrowing—that is, the increase in the national debt. If we entered the war with a national debt of \$50 billion and have a debt of \$270 billion at the end of demobilization, net savings accumulated during that period (including business reserves) will total approximately \$220 billion, plus the amount of net capital formation during the war.<sup>10</sup>

Accumulation of individual net savings from 1939 to 1944 is illustrated by table 8. Including net savings of

<sup>10</sup> This relationship may be proved using the following symbols to indicate items in the flow of the gross national product:

Gross national product..... GNP  
 Share of Government in GNP... G  
 Share of private consumption  
 in GNP..... C  
 Net capital formation..... F  
 Capital charges..... A  
 So that

$$GNP = G + C + F + A \dots\dots\dots (1)$$

Further:  
 Business taxes..... T<sub>b</sub>  
 Direct taxes..... T<sub>d</sub>  
 National income..... I  
 Disposable income of individuals  
 and business enterprises..... D  
 So that

$$I = GNP - A - T_b \dots\dots\dots (2)$$

and  
 $D = I - T_d = GNP - A - T_b - T_d \dots\dots\dots (3)$

Then savings of individuals and business enterprises will equal the difference

$$S = D - C \dots\dots\dots (4)$$

Substituting (3) for D we find

$$S = GNP - A - C - T_b - T_d \dots\dots\dots (5)$$

Substituting (1) for GNP in the last equation

$$S = G + F - T_b - T_d \dots\dots\dots (6)$$

Or  
 $S = (G - T_b - T_d) + F \dots\dots\dots (7)$

It will be noticed that (G - T<sub>b</sub> - T<sub>d</sub>) represents the difference of Government spending for goods and services (G) over its receipts in business and direct taxes (T<sub>b</sub> and T<sub>d</sub>). Since this difference is covered by borrowing, formula (7) indicates that net savings of individuals and business equal the sum of Government borrowing and net private capital formation.

In all these equations, allowance should be made for adjustment factors.

corporations (undistributed profits) totaling \$26.1 billion (table 3), about \$190 billion was put aside by the end of 1945. This amount is bound to increase further in the period of reconversion as long as the shortage of durable goods on the market compels consumers to postpone or restrict their postwar purchases.

A run-away inflation like that which had developed under much less pressure during the last war has been prevented this time by economic controls and the sober behavior of the majority of the population. Price control and rationing assured consumers of essentials at prices reasonably near the pre-war level. These measures eliminated the pressure of free purchasing power on prices in the controlled section of the economic system but did not reduce the disparity between disposable income and expenditures. The gap, rather, was stabilized by the fact that consumer expenditures for essentials could not increase. To some extent, controls were facilitated by the fact that consumption was maintained at a very high level—higher indeed than had ever been reached before the war. Sacrifices demanded from the population were not heavy in comparison with those in other belligerent countries. In addition, consumers showed a considerable amount of self-discipline and were willing to defer spending by buying war bonds or otherwise putting money aside.

The contrast between wartime and peacetime savings is presented in a nutshell by the statement that under normal conditions a consumer saves mainly for a rainy day while in wartime he saves mainly for a bright day. He thinks of the day when the war will be over, when new cars, refrigerators, washing machines, radios, and other coveted durable goods will re-

appear on the market; when he will be able to buy or build a home to his taste; when he again can buy gasoline freely; when the horrors of war will no longer interfere with his desire for leisure and pleasure. But these are not the only motives for saving in wartime. Some consumers are reluctant to spend their earnings because they do not know what will happen to them and their families in the coming months or years. Others spend less because they have no time or opportunity for spending or because they choose to adopt the more austere manner of living that develops under the strain of war. Still others fear the future, when the war boom is over. Of course, war and easy money also stimulate lavish spending. There is no evidence, however, that the great majority of consumers in the United States were eager to acquire more than their proper share of the wartime output of civilian goods and services.

#### The Distribution of War Savings

The impact of war savings on economic and social conditions after the war depends largely on the distribution of savings among the population. Before the war, savings were concentrated in the hands of a relatively few well-to-do persons. On the basis of the Consumer Purchases Study, the National Resources Committee found that approximately 60 percent of the 39.5 million households in the United States had incomes of less than \$1,250 in 1935-36 and not only did not put money aside but were unable to make ends meet; they made no current savings and had to use earlier savings, rely on public or private aid, or go into debt. In the next higher 10 percent of the households, with annual incomes of \$1,250-1,500, the rate of

Table 9.—Distribution of income, expenditures, and savings of households, by income class, 1942

Income class	Households (in millions)	Money income	Taxes	Expenditures <sup>1</sup>	Savings
All classes.	41.2	\$105.4	\$4.3	\$75.7	\$25.4
Less than \$1,500.	16.7	14.4	.1	14.4	( <sup>2</sup> )
1,500-2,999	13.9	29.7	.2	24.8	4.7
3,000-4,999	7.3	27.7	.4	20.4	6.8
5,000-9,999	2.5	17.0	.5	10.4	6.0
10,000 or more	.8	16.6	3.1	5.6	7.9

<sup>1</sup> Including gifts to organizations.

<sup>2</sup> Less than \$50 million.

Source: Office of Price Administration, *Civilian Spending and Saving, 1941 and 1942*, Mar. 1, 1943, p. 4.

savings was less than 2 percent of income; it increased steadily in higher income groups, and households with incomes of \$20,000 or more saved more than half their incomes. In 1935-36, sizable savings were put aside by approximately 4 million households; among these, some 331,000 families and single individuals with incomes of \$10,000 or more made more than 60 percent of the aggregate savings.

The situation has changed during the war. According to the Office of Price Administration, incomes, taxes, expenditures, and savings were distributed in 1942 by broad income classes as shown in table 9.<sup>11</sup> Some 800,000 households with incomes of \$10,000 or more made 31 percent of the aggregate savings; 2.5 million in the upper-middle income brackets had 24 percent; and the remaining 45 percent was held by 21.2 million families with incomes from \$1,500 to \$5,000. On the other hand, the 16.7 million families with incomes under \$1,500 were, as a group, in the red.

For 1944 the Bureau of Labor Statistics has collected data on distribution of families and single persons in urban communities by income level (table 10). These data, not strictly comparable with those for 1942 as shown in table 9, indicate that about 30 percent of the city households

<sup>11</sup> Totals of incomes, taxes, expenditures, and savings in table 9 differ from respective items for 1942 in tables 3 and 8. The difference is largely due to the fact that table 9 is restricted to money incomes of households while tables 3 and 8 refer to all kinds of income and individuals, including persons not in private households.

Table 8.—Distribution of income payments among expenditures, taxes, and saving, 1939-45

[In billions, at current prices]

Item	1939	1940	1941	1942	1943	1944	1945
Income payments to individuals.....	\$70.8	\$76.5	\$92.7	\$117.3	\$143.1	\$156.8	\$160.6
Consumer expenditures.....	61.7	65.7	74.6	82.0	91.3	98.5	104.9
Surplus of incomes over expenditures.....	9.1	10.8	18.1	35.3	51.8	58.3	55.7
Distribution of surplus incomes:							
Personal taxes.....	3.1	3.3	4.0	6.7	18.6	19.4	21.0
Net saving.....	6.0	7.5	14.2	28.6	33.2	38.9	34.7

Source: *Survey of Current Business*, January 1944, February 1945.

Table 10.—Average money income, expenditures, and savings of households in cities, by income class, 1944

Money income after personal taxes	Percent- age distri- bution of all house- holds	Per household			
		Money income	Taxes	Expendi- tures <sup>1</sup>	Savings
All classes.....	100.0				
Less than \$500.....	4.2	\$292	\$1	\$611	-\$320
500-999.....	7.7	787	23	970	-206
1,000-1,499.....	7.1	1,313	70	1,369	-126
1,500-1,999.....	11.9	1,893	124	1,772	-3
2,000-2,499.....	13.9	2,449	198	2,038	213
2,500-2,999.....	13.2	3,030	283	2,511	236
3,000-3,999.....	19.9	3,888	407	2,943	538
4,000-4,999.....	9.6	4,970	564	3,639	767
5,000 or more.....	12.5	9,991	2,357	4,778	2,856

<sup>1</sup> Includes gifts and contributions.

Source: "Expenditures and Savings of City Families in 1944," *Monthly Labor Review*, January 1946, pp. 1-5.

made no savings in that year; about an equal group saved less than 10 percent of their annual money income; 20 percent put aside 15-20 percent; and 20 percent had more substantial savings.

A comparison of the distribution of incomes and savings in 1942 and 1944 with their distribution in 1935-36 shows that during the war years a large number of families in the United States enjoyed increases in income that brought them to levels at which they could make appreciable savings.

Many city families that had annual incomes of \$1,250-1,500 and practically no savings in 1935-36, for example, may have risen to the \$2,500-3,000 bracket by 1944 and put aside the average of \$236 in that year. Through the 4 years of the war, cumulative savings of such a household may have amounted to \$800.

A wider distribution of savings was furthered also by the drastic rise of taxes on the higher incomes during the war, which contributed to a less uneven distribution of disposable income. Estimates of the deciles of the disposable income in 1942 and 1944 are shown in table 11.

With such differences in the rise in disposable income at different economic levels, it seems reasonable to assume that the amount of free money and savings in the middle income groups increased at a higher rate than in the prosperous groups.

The contention that millions of households shared in war savings is confirmed by numerous sample surveys. The survey of incomes and savings of Braddock steelworkers made by the United Steelworkers of Amer-

ica (CIO) in January 1945 is typical. Cumulative liquid savings of a representative cross section of steelworkers averaged \$800 at the time of the survey. Only 18 percent reported savings of less than \$100; 20 percent had from \$100 to \$300; 20 percent had put aside from \$300 to \$500; 23 percent from \$500 to \$1,000, and 19 percent, \$1,000 or more.<sup>12</sup> The survey points out that only one-fourth of reported savings represented rainy-day money, while the rest was put aside because of the particular conditions of war economy, as deferred purchasing power.

A survey made by the Industrial Union of Marine and Shipbuilding Workers of America suggests that savings of shipyard workers averaged \$382 before they entered the industry and \$652 on July 15, 1944. This increase in savings was allegedly offset by the growth of debts, which averaged \$262 when the workers entered the shipyard jobs and \$561 when the survey was taken. The latter amount, however, includes mortgages which workers gave on property they had bought at the new location. Since it is highly improbable that the mortgages represented more than the actual value of the property, the rise in

<sup>12</sup> United Steelworkers of America, *The Braddock Steelworker*, p. 22.

Table 11.—Decile disposable incomes of nonfarm families of two or more (after deduction of taxes), 1942 and 1944<sup>1</sup>

Year	First decile	Second decile	Third decile	Fourth decile	Fifth decile	Sixth decile	Seventh decile	Eighth decile	Ninth decile
1942.....	\$550	\$920	\$1,285	\$1,570	\$1,895	\$2,220	\$2,570	\$3,070	\$4,000
1944.....	1,040	1,400	1,755	2,025	2,235	2,550	2,890	3,260	4,000
Gain.....	490	480	470	455	340	330	320	190	-----

<sup>1</sup> For method of estimating taxes see Woytinsky, W. S., "Economic Perspectives, 1943-48," *Social Security Board, Bureau of Research and Statistics (Memorandum No. 52)*, p. 98.

debts recorded by the survey can hardly be regarded as an item offsetting liquid savings of workers.

This survey also reports that more than 90 percent of the shipyard workers had war bonds averaging \$484 per holder.

The accumulation of liquid savings by farmers deserves particular attention. Total equities in farms increased from \$53.8 billion as of January 1, 1940, to \$90.8 billion on January 1, 1945. More specifically, landowners' equity in real estate advanced from \$27.1 billion to \$45.0 billion, and farmers' equity in other property, from \$26.7 billion to \$45.8 billion.<sup>13</sup>

The gain in landowners' equity reflected the rise in real-estate prices and the decline in mortgages. The gain of farmers' equity in other property was due partly to reevaluation of livestock and equipment but mainly to improvements on farms and accumulation of liquid financial assets such as currency, deposits, and U. S. savings bonds: these last totaled \$5.2 billion on January 1, 1940, and \$16.8 billion on January 1, 1945. At the same time, liabilities of farmers (including real-estate mortgages and other debts) dropped from \$10 billion to \$9 billion. Before the war the financial assets of farmers were \$4.7 billion less than their liabilities; on January 1, 1945, their assets exceeded their liabilities by \$7.8 billion.

Market conditions were highly favorable for farmers in 1945 and are likely to remain favorable during the transition to a peacetime economy. By the end of 1946 their liquid financial assets may readily increase to about \$25 billion, about five times the prewar size and five times as much

<sup>13</sup> Department of Agriculture, Bureau of Agricultural Economics, *The Impact of the War on the Financial Structure of Agriculture*, 1945, (Misc. Pub. No. 567); and *The Balance Sheet of Agriculture, 1945*, December 1945 (Misc. Pub. No. 583).

Table 12.—Hypothetical distribution of war savings at the end of 1945, by income class in 1942

Income class in 1942	Number of households, 1945 (in millions)		Savings at the end of 1945		
	All households	Households with savings	Total (in billions)	Average per household	
				All households	Households with savings
Total.....	42.0	31.5	\$150	\$3,571	\$4,762
Less than \$1,500.....	17.0	7.6	5	294	667
1,500-2,999.....	14.2	13.5	40	2,817	2,963
3,000-4,999.....	7.7	7.2	42	5,455	5,833
5,000-9,999.....	2.5	2.5	31	12,400	12,400
10,000 or more.....	.8	.8	32	40,000	40,000

as the annual income of farmers in the late 1930's.

Valuable information on the distribution of war savings is provided by the survey of hopes and fears of the population taken by *Fortune* in the summer of 1945.

The following question was asked: *Sometimes it is interesting to think of what we might be able to do under different circumstances. For instance, suppose your whole income suddenly stopped for awhile. Could you live for six months just the way you are now living if you used your savings, war bonds, investments, and ready cash?*

The answers were tabulated as follows:<sup>14</sup>

Answer	Economic level					
	Total	Prosperous	Upper middle	Lower middle	Poor	Negroes
	(Percentage distribution)					
Yes.....	49.2	82.1	69.9	47.4	28.8	25.9
No.....	45.5	16.3	27.1	47.0	63.3	67.2
Don't know.....	5.3	1.6	3.0	5.6	7.9	6.9

*Fortune* comments on these revealing figures: "So about half of the people in the country think they could live for six months the way they are now living if their present income were suddenly cut off. But naturally, as the economic breakdowns reveal, the people most likely to be affected by a postwar depression and consequent unemployment are the people who in large part lack funds to keep themselves going for a period of six months."

Table 12 shows a hypothetical dis-

<sup>14</sup> *Fortune*, August 1945, p. 257.

tribution of individual war savings accumulated by the end of 1945<sup>15</sup> among families grouped according to their 1942 income. The estimates have been made by taking into account the distribution of savings in 1942 (table 9) and the subsequent changes in the distribution of disposable income (table 11).

On the basis of this estimate of savings by income group, American households would be distributed by amount of war savings as follows:

Amount of war savings	Households	
	Number (in thousands)	Percentage distribution
All classes.....	42,000	100.0
No war savings.....	10,500	25.0
Less than \$500.....	3,150	7.5
500-999.....	3,150	7.5
1,000-1,999.....	5,250	12.5
2,000-2,999.....	4,200	10.0
3,000-3,999.....	3,780	9.0
4,000-4,999.....	3,570	8.5
5,000-7,499.....	5,250	12.5
7,500 or more.....	3,150	7.5

Source: Free-hand interpolation of the estimated distribution of savings by income classes.

With reservation for a considerable margin of error in computations of this type, it seems not unlikely that by the end of 1945 about 50 percent of all households had savings at least equal to their prewar annual earnings; 10 to 15 percent had saved an equivalent of 6 to 11 months of their prewar earnings; an equal proportion had the equivalent of 6 months' earnings; and 25 percent had no appreciable financial reserves.

Wartime saving will not transform

<sup>15</sup> As shown in table 8, net savings of individuals from 1939 through 1945 totaled \$163.3 billion. It is assumed that \$150 billion was held by individual households.

the United States into a Nation of capitalists nor will it eliminate poverty or iron out economic inequality. But savings have brought a new feeling of individual security to many households. In some cases the reserves may be dissipated by a long spell of unemployment or a serious sickness. For other households, war savings may become an important and lasting factor in determining their manner of life after the war.

### The Role of Savings After the War

The liquidity of savings after the war will naturally vary according to the form in which they are held. It may be anticipated that cash savings will be spent more freely than demand deposits; demand deposits will be more liquid than time deposits; war bonds may be cashed earlier than other securities; securities will be more liquid than equities in homes; and so on. It may be anticipated also that war savings held by persons in the lower income groups will be spent sooner than those held by the rich.

By the end of 1945, nearly \$50 billion was invested in U. S. savings bonds; increases during the war in the amount of currency in circulation (cash held) and in demand and time deposits represented \$20 billion and \$40 billion, respectively, in round numbers. With deposits in savings banks and government securities other than war bonds, the amount of individual savings which may be at any time converted into purchasing power may have totaled \$120 billion. Other savings (other securities, reduction of debts, purchase of insurance) are less liquid. Even the least liquid, however, may enable the holder to spend his current earnings more freely.

Inquiries conducted by various organizations indicate that most people, even those who had no reason for saving but the lack of opportunity for spending, gave thought to the purposes for which they might use their savings after the war and that their plans changed as time went on.

There are also indications that persons who invested a part of their war savings in war bonds and kept the rest in bank deposits or cash made particular plans for the different parts of their reserves. All inquiries point toward the conclusion that the bulk of

war savings will be expended with considerable forethought and prudence.

The timing of the maturity of war bonds will encourage holders to stretch their spending over a comparatively long period of time. People who did not cash war bonds during the war, when there was much pressure for buying them and relatively little for keeping them, will forget that they had paid \$75 for each \$100 bond and will feel that they are losing money unless they can cash a bond for its maturity value. This psychological inducement for waiting for the maturity of the bond may be much stronger than the accruing interest.

All in all, the stored-up purchasing power represented by war savings exceeds by far the deferred demand for durable goods. Overdue home repairs and purchase of cars, refrigerators, and radio sets will absorb only a small fraction of the war savings. The remaining reserves will give to holders a feeling of security and enable them to improve their standard of living.

At the same time, the reserves that business enterprises have accumulated will increase the stability of the whole economic system. The weak point of our economy in the 1920's was accumulation of debts. Consumers were indebted to retail dealers, retail dealers to manufacturers, manufacturers and farmers to banks. The whole Nation was in the red, and the first major shock brought down the house of cards of fictitious prosperity. In striking contrast, consumers now meet the postwar economy with debts largely paid up and with solid titles to a higher standard of living.

We do not know what part of war savings will return annually to circulation. Theoretically, the ratio may range between 0 and 100 percent, but extremes are highly improbable. If in each year one-fifth of the holders spend one-fifth of their war savings, \$5-6 billion will be injected into the flow of the economy, which is about as much as the economic system can absorb without serious trouble.

In fact, apart from transfer of title from one group of the population to another—from persons in middle income classes to banks, for example—the liquidation of war savings is bound to keep pace with the liquidation of the national debt, just as the

pling up of savings during the war kept pace with the growth of that debt. Completion of this operation in a couple of years or even a decade is not likely.

A more rapid liquidation of war savings would be a run-away inflation that would cut down the real purchasing power of the dollar and might result also in depreciation of stocks and economic losses like those of the early 1930's.

As long as the national economy runs on an even keel, only small amounts of savings can be added to current expenditures. The Nation as a whole will therefore be in the position of the fabulous hero with an unlimited amount of money who discovered how narrow were the limits of his capacity to spend. Unless war savings are dissipated in economic turmoil, they will act as a revolving and equalization fund for a considerable period of time.

Moreover, in planning for postwar prosperity one can rely as little on the liquidation of savings by individuals as on the excess of exports over imports, deficit spending by the Government, or a continuous rise on the stock exchange. Lasting prosperity can be ensured only by a sound relationship between the various factors in the flow of national income—production and consumption, wages and profits, technological progress and hours of work, current savings and investments, private and public expenditures, agricultural and industrial prices, exports and imports, and so forth.

### Menace of Inflation

An economic system based on individual initiative is exposed to the double danger of deflationary contraction and inflationary overexpansion. Inflation endangers employment not only by depreciating savings and real income but still more by stimulating expansion of certain branches of production to a point that cannot be maintained. Since such expansion is bound to end in a more or less violent contraction, it carries seeds of a deflation. Experience shows that economic losses during a depression depend largely on the extent of overexpansion in the preceding phase of the business cycle. There is therefore a danger that the postwar expansion kindled by accumulated war sav-

ings and business reserves will develop into a boom, as it did after World War I, with the same disastrous conclusion.

In fact, whatever may be the cyclical ups and downs after the war, financial reserves and savings piled up during the war will exercise influence in all phases of each cycle, stimulating expansion, retarding a downturn, cushioning contraction, and accelerating revival. In this way the cyclical fluctuations will be superimposed on the ascending slope of postwar economic growth.

This type of development has considerable advantages, but its weak point is that maladjustments in prices, wages, investments, distribution of productive forces, and the like, that are accumulated in the expansive phase of a cycle are not fully corrected by a mild set-back. Hidden inflation may progress, as in the 1920's, until the postwar expansive forces exhaust themselves and the overinflated economy collapses. This danger would be greatly increased by an overexpansion of bank credits that is invited by the accumulation of war savings. Indeed, protecting our economy against the immediate deflationary danger, war savings tend, at the same time, to increase the danger of a deflationary collapse after a period of inflationary expansion.

### Phases of the Postwar Economy

As was indicated at the beginning of this article, the road of reconversion goes downhill, from the war boom to peacetime full employment. Perhaps the main economic consequence of the war in the United States is that the slope of the trail has been turned: the goal which seemed to be almost inaccessible when it lay above the deep valley of depression appears nearer when we look down on it from the lofty peak of the war boom. It would be pernicious, however, to overestimate the advantages of the present situation. In economics—as in mountain climbing—the descent is often as dangerous as the ascent and requires as much care.

The immediate task of reconversion in terms of employment is summarized in table 13. The reconversion to full employment visualized in this projection does not presume that peacetime production must expand

Table 13.—High lights of the reconversion

Item	Number of persons (in millions)
<b>I. Manpower, August 1945<sup>1</sup></b>	
Total.....	66.5
In military service.....	12.2
Civilian labor force available, total.....	54.3
Unemployed.....	8
Employed, total.....	53.5
Peacetime activities.....	42.6
Munitions and related industries.....	9.0
War agencies.....	1.9
<b>II. Assumed changes, August 1945-August 1946:</b>	
<b>A. Increase in civilian labor supply, total.....</b>	
20.0	
Cut-backs in munitions and related industries.....	9.0
Cut-backs in war agencies.....	1.5
Ex-servicemen returning to civilian occupation (net).....	9.0
Increase in labor force from population growth.....	.5
<b>B. Absorption of labor displaced by demobilization of industry and the armed forces, total.....</b>	
18.5	
Filling open vacancies.....	2.0
Openings due to curtailment of hours of work.....	2.5
Withdrawal of emergency workers.....	4.0
New peacetime jobs:	
In same establishment (without interruption of employment).....	3.0
Created through reconversion.....	7.0
<b>C. Unemployment:</b>	
Increase.....	1.5
Total at end of reconversion <sup>2</sup> .....	2.3

<sup>1</sup> Based on figures of the War Manpower Commission.

<sup>2</sup> Including 800,000 out of work on VE-day.

sufficiently to provide jobs for all 20 million persons added to civilian labor supply. It is anticipated, rather, that the dwindling demand for manpower by munitions industries and the armed forces will be largely offset by withdrawals of emergency workers, vacancies which remained unfilled during the war, and new openings due to curtailment of hours of work. The number of withdrawals during the first year after Japan's surrender is estimated at 4 million (1.5 million young workers, 0.5 million service wives, 1 million other married women, and 1 million superannuated and handicapped persons). The number of openings due to curtailment of hours of work is set at 2.5 million and that of vacancies open, when fighting stopped, at 2 million. These factors would take care of 8.5 million displaced persons. An additional 10 million peacetime jobs must be made available in reconverted establishments or other industries if

unemployment is to remain merely frictional, in accordance with the concept of full employment.

Taking account of the level of employment in civilian-goods industries when the war was approaching its end, it seems that these industries may readily provide the desired number of jobs: about 4 million openings might be expected in manufacturing and mining, 2 to 3 million in building construction and related trades, 0.5 to 1 million in agriculture, as many in independent nonagricultural pursuits, and the remainder in trade, service industries, professions, and domestic services. The success of reconversion depends on the speed of reabsorption of laid-off war workers and returning veterans. Progress during the first 6 months after the surrender of Japan has been highly encouraging.

By the end of February 1946, 6 months after VJ-day, practically all munitions production was at an end and about 9 million civilian workers lost their wartime jobs. At the same time more than 6.5 million persons had been released from the armed forces. With allowance for the lag between separation of men from military service and their return to civilian work, 15-15.5 million persons joined the civilian labor supply. Since unemployment—including veterans claiming readjustment allowances—increased by only 2.5 millions, 12.5-13 million additions to the civilian labor force in those 6 months remain to be accounted for. Hardly more than 2.5 or 3 million emergency workers withdrew from the labor force, and some 10 million former war workers and servicemen found jobs in peacetime industries. This total includes about 3 million workers who shifted to peacetime work in the same establishments in which they had worked during the war, without interruption of employment, and 7 million persons who found new jobs after a short search. The distribution of these jobs is unknown; they may have included a million open vacancies, about a million jobs made available by the reduction of hours of work, and about 5 million jobs in expanding civilian production. This distribution, however, is merely illustrative. Of crucial importance is the fact that 6 months after VJ-day unemployment in the United States did not exceed

the theoretical minimum "float" of the labor force that corresponds, in this season of the year, to the concept of full employment. Many industries continued to work 45 hours a week, most of the emergency war workers remained in the labor market, and help was wanted in service industries as urgently as before, though expansion of peacetime production had been slowed down by labor disputes.

These conditions cast light on the perspectives of the next phase of reconversion, say from March 1 to August 31, 1946. In these months, about 5 million may be added to the civilian labor force, including 500,000 representing the normal addition to the labor force as a result of population growth and a backlog of some 1 or 1.5 million persons who had been released from the armed forces before March 1, 1946, but had not looked for work immediately.

Assuming that 1.5-2 million emergency workers withdraw from the labor market, an additional 3-3.5 million jobs will be required to keep unemployment from rising above the theoretical minimum of 2.5 million. On the other hand, apart from jobs now vacant and new jobs created by continued curtailment of hours of work, about 500,000 men will be demanded by agriculture, 2 million by expanding building construction, and as many by other industries, not to mention opportunities in independent pursuits, in trade, services, and professions.

In brief, it appears that the completion of reconversion will find the labor market tight, and it is not unlikely that a general shortage of labor will persist not only throughout 1946 but also 1947.

Despite the small volume of unemployment in the last quarter of 1945 and early months of 1946, this period probably will prove to be the demobilization set-back analogous to the short spell of contraction in the first half of 1919. It can hardly be called a "primary postwar depression" because the economic situation lacks the characteristics of a depression.

The second half of 1946 and 1947 would mark the beginning of postwar expansion. A set-back analogous to that in 1920-21 may appear in 1948 or 1949, when the first rush of post-

war buying is over, industry is provided with labor-saving devices, and the productivity of labor begins to rise more rapidly than consumer demand.

In the projections for 1945-50 (tables 5 and 6), economic difficulties in 1948 are marked by an interruption in the growth of the gross national product. The set-back would be much more serious if run-away inflation should develop in 1946-47. If that is avoided, a set-back in 1948 would be analogous to that in 1920-21, in that it would serve to liquidate certain maladjustments left by the war economy, but it would be less destructive and cause less unemployment.

The projections developed in this study suggest that the industrial expansion characteristic of postwar economy would probably be resumed after a brief spell of contraction. Its momentum will be determined by the

available reserves of productive forces and accumulated purchasing power. Such a trend does not preclude cyclical ups and downs. National policy will largely determine whether such fluctuations are kept within a narrow range or develop into a succession of violent booms and depressions.

The present projections are optimistic in the sense that they assume only a moderate advance in the expansive phase of the first postwar cycle. Under this assumption, a set-back that might occur at some time in the early 1950's would be comparatively mild, as in 1927 for example. The occurrence or timing of such a set-back is unpredictable, since developments will be determined by factors now nonexistent. In any event, if it occurred before, say, 1955, expansive forces generated by the war economy would not have been exhausted; housing construction al-

most certainly would be in full swing; the rebuilding and rezoning of cities will have gained momentum; probably only a small part of war savings would have been liquidated; the bulk of the war bonds would be reaching maturity, inviting holders to use their cash holdings for investment in durable goods. All these factors would accelerate revival. It seems more than probable that postwar expansion will last at least through another business cycle, probably to the end of the 1950's or to the beginning of the 1960's.

To sum up, the United States has a fair chance of winning the peace and enjoying a long spell of prosperity and full employment with only minor temporary set-backs if—and this is a big if—it keeps under control the inflationary forces that pave the way for deflationary collapse and major depressions.

## The Employment Act of 1946

By Anne Scitovszky\*

THE EMPLOYMENT ACT OF 1946—the final outcome of the various “full-employment” bills under consideration by Congress for more than a year—became law on February 20 (Public Law No. 304, 79th Cong.). In signing the act, the President declared: “In enacting this legislation the Congress and the President are responding to an overwhelming demand of the people. The legislation gives expression to a deep-seated desire for a conscious and positive attack upon the ever-recurring problems of mass unemployment and ruinous depression. . .

“Democratic government has the responsibility to use all its resources to create and maintain conditions under which free competitive enterprise can operate effectively—conditions under which there is an abundance of employment opportunity for those who are able, willing, and seeking to work.

“It is not the government's duty to supplant the efforts of private enterprise to find markets, or of individuals to find jobs. The people do expect the government, however, to create and

maintain conditions in which the individual businessman and the individual job seeker have a chance to succeed by their own efforts. That is the objective of the Employment Act of 1946. . .

“I am happy that the Senate adopted this legislation unanimously, the House of Representatives by a large majority. The result is not all I had hoped for, but I congratulate Members of both Houses and their leaders upon their constructive and fruitful efforts.

“The Employment Act of 1946 is not the end of the road, but rather the beginning. It is a commitment by the government to the people—a commitment to take any and all of the measures necessary for a healthy economy, one that provides opportunities for those able, willing, and seeking to work. . .”

### Provisions of the Act

The act begins with a “Declaration of Policy” (section 2), affirming that it is “the continuing policy and responsibility of the Federal Government . . . to coordinate and utilize all its plans, functions, and resources for the purpose of creating and main-

taining . . . conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.”

To carry out this policy, the President is directed (section 3) to transmit an “Economic Report” to the Congress at the beginning of each regular session starting with the year 1947. The report is to set forth (1) the levels of employment, production, and purchasing power obtaining in the United States and the levels necessary to carry out the declared policy; (2) current and foreseeable trends in the levels of employment, production, and purchasing power; (3) a review of the economic program of the Federal Government and of economic conditions affecting employment in the United States during the preceding year and of their effect on employment, production, and purchasing power; and (4) a program for carrying out the policy, together with such recommendations for legislation as the President may deem necessary.

A Council of Economic Advisers is created (section 4) within the Executive Office of the President. This Council is to be composed of three members appointed by the President

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