

4-1943

Business After The War

Arthur R. Upgren

Follow this and additional works at: <https://digitalcommons.morris.umn.edu/jmas>



Part of the [Business Commons](#), and the [Economics Commons](#)

Recommended Citation

Upgren, A. R. (1943). Business After The War. *Journal of the Minnesota Academy of Science*, Vol. 11 No. 1, 84-90.

Retrieved from <https://digitalcommons.morris.umn.edu/jmas/vol11/iss1/17>

This Article is brought to you for free and open access by the Journals at University of Minnesota Morris Digital Well. It has been accepted for inclusion in Journal of the Minnesota Academy of Science by an authorized editor of University of Minnesota Morris Digital Well. For more information, please contact skulann@morris.umn.edu.

Social Science

BUSINESS AFTER THE WAR

ARTHUR R. UPGREN

Federal Reserve Bank of Minneapolis

There can be little question but that the most striking development of the wartime period is the steady and rapid rise in the national income of the people of the United States. From a level slightly in excess of 70 billion dollars in 1939 the national income increased to 76 billion dollars in 1940, to 95 billion dollars in 1941, and to more than 119 billion dollars in 1942. Further increases can be confidently expected, and in fact, Secretary Jones of the Department of Commerce recently estimated the national income for 1943 at 135 billion dollars. This is one of the central facts in the wartime changes in our economy. Our government has work for everyone able to contribute in the war program. It will find the means to pay for its expenditures. Its payments make incomes high.

Through the year 1941 consumers were reasonably free to spend their new higher incomes in the purchase of consumer goods. Since 1941, however, although incomes have been rising, expenditures of consumers for many kinds of goods have been falling. It now appears that in the present year, 1943, because of widespread shortages of goods, consumers' expenditures in almost all important lines will be greatly decreased. This situation is reflected and has its complement in the growth of total savings of the people of the United States. These increased in 1942 to a level of no less than 26 billion dollars from 12 billion dollars in 1941, and from only 7 billion dollars in 1940. It is, of course, to be hoped that a majority of consumers' savings will be invested in government securities in order that inflation may be checked.

As a result of these changes, private residential housing is almost non-existent except for defense workers. Expenditures of consumers for all kinds of durable goods—automobiles, electric refrigerators, household appliances, in fact, of anything made of the new precious metals—will have been reduced by probably three-fourths from the annual level before Pearl Harbor. Many other kinds of expenditures of both consumers and businesses as well are being drastically reduced. In fact, civilian industries may not even be able to spend their depreciation allowance for plant and equipment to make good the wear and tear of wartime years. The importance of even just these replacement expenditures is indicated in the fact that American industries' annual total depreciation charges are more than 5 billion dollars.

THE SIGNIFICANCE OF WARTIME CHANGES FOR BUSINESS

There exists an increasingly wide realization that an immense amount of deferred demand will have been accumulated during the years of the war. In a recent article (*Harvard Business Review*, Autumn, 1942) Professor Sumner H. Slichter estimated the amounts of deferred demand that would be accumulated by June 30, 1944. These are given in Table I.

TABLE I.

ESTIMATED DEFERRED DEMANDS FOR GOODS THAT WILL BE ACCUMULATED IN THE UNITED STATES BY JUNE 30, 1944

Deferred demand for housing	\$ 3.7 billion
Deferred demand for consumers' durable goods	8.7 billion
Private business construction and equipment deferred demand	5.2 billion
Deferred private maintenance	2.0 billion
Deferred demand for consumers' semi-durable goods	3.0 billion
Deferred public works	2.7 billion
Deferred public maintenance	0.6 billion

Total Estimated Deferred Demand at June 30, 1944	\$25.9 billion
---	----------------

Not only will these huge amounts of needs be accumulated during the war, but the public simultaneously is accumulating buying power that, in light of the "potential" but never realized deferred demand of the 1930's can make this huge wartime forced deferred demand into effective market demand when the war is ended. In a recent speech (*New York Times*, January 15, 1943) David C. Prince, Vice President of General Electric Company, cited figures indicating that a backlog of buying power of 32 billion dollars would be accumulated by consumers by the end of 1943. In the depression years of the 1930's, in contrast, consumer debts were high and consumers' savings low, accompanied by huge losses in consumers' capital resources. In the present wartime period, however, consumers are sharply increasing their savings, their investments, their bank deposits, and substantially reducing their debts.

Reliance for a high level for business after the war by no means is to be placed wholly upon accumulations of deferred demand even though they may be fully backed by increased savings and prepared for by debt retirement. An even more significant factor is that the national income will be high throughout the years of the war. If reasonably high level incomes can be maintained *after* the war, the buying power such current incomes can generate will prove to be the greatest source of support for business. In addition, the combination of a high level national income and accumulated financial resources gives excellent promise that business activity itself will be enough to offer strong assurance of maintaining the

high level for the national income that was at first assumed merely to find out what its results can be and as they are next reviewed.

THE NATURE OF CONSUMER WANTS BASED ON A HIGH NATIONAL INCOME

In 1941 when the national income was about 95 billion dollars, total purchases of consumers' and producers' goods for private account were at their maximum in recent years. Since 1941, as has been indicated above, the national income has further increased substantially to a level of about 115 billion dollars. We have reasonably adequate figures as to the quantities of goods the American people purchased in 1941 with the incomes they then enjoyed. Can we obtain an idea of what they would buy if they were free to dispose of a higher income than they have ever had to spend in the past?

In Table 2 a comparison is made of the amounts of various classes of goods that were actually purchased in 1941 with the

TABLE II.
ESTIMATED ANNUAL CONSUMER EXPENDITURES IN 1941 AND
PROJECTED POSTWAR EXPENDITURES ASSUMED A NATIONAL
INCOME OF ABOUT \$115,000,000,000

	Estimated Consumer Expenditures in 1941	Projected Postwar Expenditures of Consumers (Based on a National Income of about \$115,000,000,000)
(In millions of dollars)		
Consumers' Expenditures for:		
Manufactured foods and like products.....	\$17,500	\$ 22,000
All other nondurable commodities.....	16,500	18,000
Total nondurable goods	\$34,000	\$ 40,000
Clothing and accessories, including shoes	\$ 8,500	\$ 10,000
All other semi-durable commodities	3,000	4,000
Total expenditures for all services (health, education, recreation, etc.)	20,000	30,000
Consumers' durable commodities	10,500	14,500
Residential construction	3,500	6,000
Total consumers' outlays	\$79,500	\$104,000

amounts that would be purchased if a larger income of 115 billion dollars could be freely spent for consumers' goods. A simple way of stating how such expenditures would be made as to various classes of goods, in view of the fact the American people have not been free to purchase with such higher incomes, is the assumption

that the American people do follow the practice of "keeping up with the Joneses." By this is meant that with a higher national income a larger number of people enjoy incomes, for example, ranging from \$2,000 to \$2,500 and a smaller number enjoy incomes from \$1,500 to \$2,000. The directions in which the larger number of people would spend their higher incomes is based upon the belief that as the one group moves into the higher income class of the other group their outlays for goods and services take the budget pattern of the latter group. Since budgets are known in advance by inquiry into the expenditures of all income groups we can determine the new totals for consumers' expenditures based upon their higher level incomes. In Table 2 it is the increased expenditures that are indicated in comparison with the outlays of consumers in 1941.

The foregoing total figures are not to be reconciled directly with the national income for the reason that the amounts given above are not given on a basis comparable with figures for the national income. This is owing to the fact that the net national income is always calculated after deduction for various items; i.e., it is a *net* figure, including particularly, for example, that part of output which is required to make good depreciation of durable goods. The economy produces some goods for consumers' replacements and they are a part of total production, of total consumers' takings, but they are not a part of the net national income.

Consumer expenditures, as listed above by classes for 1941, therefore embrace quantities taken both for replacement and for ordinary consumption. However, since the same basis has been used in the estimates for consumer demands in the postwar year, the comparison is appropriate to show amounts and directions of the *increases* in outlays consumers would make when they again will be free to dispose of their incomes in accordance with their free choices. The higher level of national income would result in a total enlargement of consumer takings of 25 billion dollars.

These estimates are given not as forecasts but as a way of approach to the problem of the markets business may expect after the war, and as a way of inquiring into the problems of financing business that will come to the fore when war production is to cease. Business itself, on its own superior knowledge, will make its final estimations by individual companies and individual products. When this is done more reliable figures will be available for the financial advance budgeting that is needed. It is this kind of planning that is needed and that will be approved by everyone.

THE OUTLOOK FOR THE NATIONAL INCOME AFTER THE WAR

The question, of course, that is in the mind of every credit man and retailer is what is the outlook for business activity and national income after the war. Will the tremendous debt that the nation has built up eat into the postwar prosperity, and will business custo-

mers have adequate incomes to assure a large market and be good credit risks?

The question of how well our government can manage its debt after the war can most simply be put in terms of a single question: *Can we maintain a high national income after the war?*

If the answer to this question is "Yes" there certainly is no reason why our government cannot take care of interest and even achieve some retirement of the debt that will be outstanding when the war ends.

In the first place, there is certainly one kernel of truth in the statement that a national debt differs from a corporate or individual debt. The difference is that whatever we tax our people to pay interest on debt, that interest is paid to our people and becomes income to all who receive it.

Consequently, if the income of our people can be maintained at a high level there should be no unsolvable problem in seeing to it that the government takes in enough money to pay interest on the debt. The problem is one of collecting taxes from us all and dispersing interest to us all. Unlike a debt owed abroad, we as a nation do not lose anything when we collect taxes to pay interest that is returned at once to our people. But, if the income of our people declines substantially, the taxes will not yield enough and it will be difficult to increase them.

THE NATIONAL INCOME IN 1943

For 1943 Secretary Jones of the Department of Commerce has estimated the total national income at \$135 billion. Last year the figure was slightly above \$115 billion. Somewhere between these two figures, perhaps we may accept a figure of \$120 billion, lies that income which would represent reasonably full activity and reasonably full employment. No doubt we shall produce more than that during the war but boys will be employed in producing it, who, after the war, should return to schools, men above sixty-five will be employed who will naturally wish to retire, many women will be employed who will not wish employment after the war, and we shall probably return to a shorter work week.

FACTORS FAVORABLE TO THE MAINTENANCE OF A HIGH LEVEL NATIONAL INCOME AFTER THE WAR

It has been estimated that by the end of the present year the American people will have accumulated no less than \$32 billion of wartime savings or financial reserves which they will want to use for the purchase of civilian goods when they are again available. It has also been estimated that by about the end of the present year no less than \$26 billion of deferred demands will have accumulated—representing goods our people have been quite prepared to pay for but which have not been available to them. It is interest-

ing indeed that current financial accumulations and debt repayment have proceeded at such a rapid rate as to keep the ability of our people to buy so very high.

It is a curious fact that when the end of the war comes, even though there might be substantial postarmistice unemployment, there is every prospect that ability to buy currently will heavily outrun the immediate ability of industry to produce the goods that will be wanted. Thus on balance, the economy would be stimulated and there is far wider agreement that some of the wartime controls—such as price and inventory controls—must be temporarily continued to prevent an undue postwar boom.

Moreover, governments do not at once end wartime expenditures with the cessation of hostilities. Rather wartime expenditures tend to continue for a period of time, thus sustaining the national income levels while civilian industries are taking hold again and, through their payrolls and payments for raw materials, are building up the share of the income that is secured by civilian production.

After the war, as has been pointed out, taxes can be substantially reduced. That, too, is most stimulating. It is highly significant that there is wide agreement among all shades of opinion that the first correction in our tax structure should come in corporate taxes. Reductions in corporate tax rates can be very stimulating to business.

Another very favorable factor is that technological improvement during the war is extremely great because the cost of all of it is charged off as a war expense. These technological improvements may be expected to burst forth on the economy after the war, and there will then have been a heavy accumulation of them. These technological improvements lead to new industries which require their own investment which thereby contributes to total activity.

On the side of debts, there has been and is continuing heavy debt retirement by our people. The Department of Commerce has estimated that consumer instalment debts—to name but one important class—will have been reduced from almost 11 billion dollars at the time of Pearl Harbor to less than four billion dollars by the end of the present year.

Thus, those consumers who do not accumulate financial reserves during the war will have a debt-free position to again buy on the instalment plan. That plan of finance after this war will be a tried and tested institution rather than in embryo as was the case after the last war.

These are some of the factors that specifically are the basis for a prospect for a high, not a low, national income after the war. To be sure, they depend fundamentally upon one crucial factor. That is, that we shall succeed in holding prices at a reasonable level throughout the war period. If that is done, the outlook will indeed

be most favorable after the war, because the favorable forces need not spend themselves in price skyrocketing as they did last time, but rather can exert their most powerful influence to an outburst in production that should permit the United States to achieve levels heretofore unknown, and levels that will keep the tax base high, therefore, the tax yield high—all to maintain unimpaired the highest integrity any debt ever had—the debt of our government.

THE FUTURE OF THE BRITISH EMPIRE

HERBERT HEATON

University of Minnesota

This subject is not of my own choosing. I was drafted, and must make three conscientious objections to the assignment. In the first place I am not a prophet. In the second, I do not regard any political institution, distribution of power, or economic system as final, but history gives no clue to indicate what the next phase in the development of an empire or of a social order is likely to be. And in the third place, I cannot do either justice or mercy to a quarter of the land surface of the world and to a quarter of its population in thirty minutes.

Let me begin by considering what is this Empire with whose future we are concerned. Some Britons would suggest it has no future because it is already a thing of the past, and has given place to, or been transformed into, the British Commonwealth of Nations. If empire means the exercise by one nation of political control over other peoples of diverse origin and culture, the new name is more accurate than the old. World War I lifted the already internally self-governing dominions—Canada, Australia, New Zealand, and South Africa—to the rank of nations. The contributions they made to that war were a substantial fraction of the British Empire's total effort. They were larger still when measured in terms of the dominions' assets in human or physical resources; New Zealand lost one in every 66 of her whole population, Australia one in every 93, while our figure was one in every 2,000. They overshadowed the contributions made by many small nations; Canada for example, lost more men than Portugal put into the field. Thus at a great price the overseas dominions gained the right to be grown-up partners, associates, members of a British Commonwealth of Nations, and this title was hatched while the war was on. In addition they won recognition as nations in the world when they secured direct representation at the peace conference, signed the Treaty of Versailles, became foundation members of the League of Nations, and in three cases were given control of territory they had conquered, as "mandatory powers."