2 *Illustrative Interpretations*

The advantages of the proposed financial statement (Table 1) for business conditions analysis may be brought out by a few illustrative comments. The seven years covered consist of two distinct periods, 1936-39, approximately a peacetime business cycle, and 1939-42, the early years of wartime business expansion.

Chart 1 compares several selected items from Table 1 with gross national product (quarterly figures at annual rates) during the peacetime cycle. The sharp recession which began late in 1937 was preceded by several developments in federal finance. Between 1936 and 1937 income taxes (lines A and B) increased more than a billion dollars, social security taxes (line C) rose from zero to two-thirds of a billion, and state payments into the Unemployment Compensation Fund (line K) increased half a billion. Altogether, total general receipts (line M) increased $2.6 billion. To probe fully the question whether this increase was among the principal factors leading to the sharp business recession of 1937-38 would require an unwarranted digression. One point pertinent to this question stands out clearly. The increase in general receipts was substantial when compared with the rise in the level of the total gross national product from the first three quarters of 1936 to the first three quarters of 1937. On an annual rate basis this rise was $7 billion.

Between 1936 and 1937 expenditures on veterans' bonus and pensions (line Y) dropped $1.7 billion.[4] Further, expenditures on public assistance (line X) and work relief payrolls (line O) each declined half a billion dollars. All told, net federal government financing (line q) exceeded $5 billion in 1936 and was negligible in 1937.

Two items of general expenditure designed to alleviate unemployment hardships were appreciably higher in 1938 than in 1937. Work relief earnings (line O) increased nearly half a billion, and unemployment compensation (line U) rose from almost nothing to $400 million. Cash income from farm marketings fell in 1938 and recovered only slightly in 1939. Farm benefits (line Z) were up sharply in 1939.

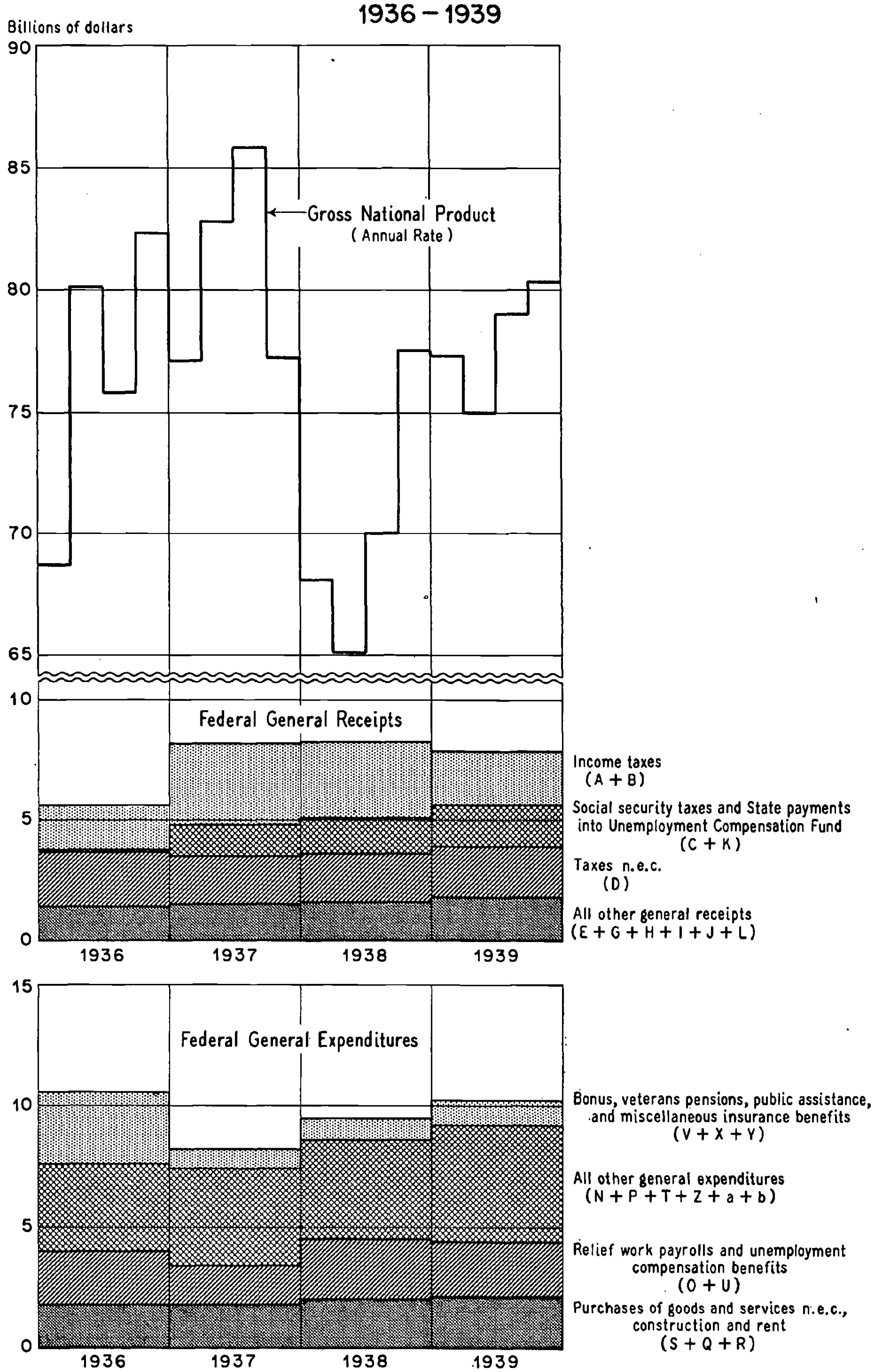
There is a suggestion of a counter-cyclical rise also in expenditures on purchases of goods and services (line S) and contract construction (line Q) in 1938; but in relation to gross national product it is the microscopic size of these increases, particularly that of contract construction (line Q), that is their outstanding feature.

The lagging adjustment of income taxes (lines A and B) before the pay-as-you-go plan was inaugurated is clear—they dropped $800 million in 1939.

[4] Table 1 shows the bonus as having been paid when adjusted service certificates were cashed.

CHART 1

Federal General Receipts and Expenditures and Gross National Product 1936 – 1939



Letters in parentheses refer to lines on Table 1.
For source of Gross National Product figures see note 12.

Home owner loans (line h) were trending downward in the years before the war without much reference to cyclical changes in the business situation. Fluctuations in farm credit show no obvious relation to changes in farm income.

During 1939-42 federal general expenditures increased sharply (Chart 2). Most of this increase was for procuring munitions of war. In 1942 purchases of goods and services (line S) constituted two-thirds of total expenditures (line c). Contract construction costs (line Q) rose to over $7 billion in 1942 and regular payrolls, military and civilian (line N), to over $9 billion. War programs also swelled interest payments (line P), rents (line R), (war risk) insurance benefits (line V), and miscellaneous cash subsidies (line a), and tax refunds (line T) rose slightly. In interpreting lines H, S, Z, and a it must be borne in mind that only cash subsidies are reported under Z and a. When a commodity has been purchased at one price and resold at a lower price, there may have been a noncash subsidy. In such cases the purchase is entered in line S and the resale in line H.

Public assistance programs were expanded during the four years 1939-42. Declines are recorded for several types of expenditure—relief work payrolls (line O), unemployment compensation benefits (line U), farm benefits (line Z), and grants-in-aid to state and local governments (line b excluding the $200 million aid to China in 1942).

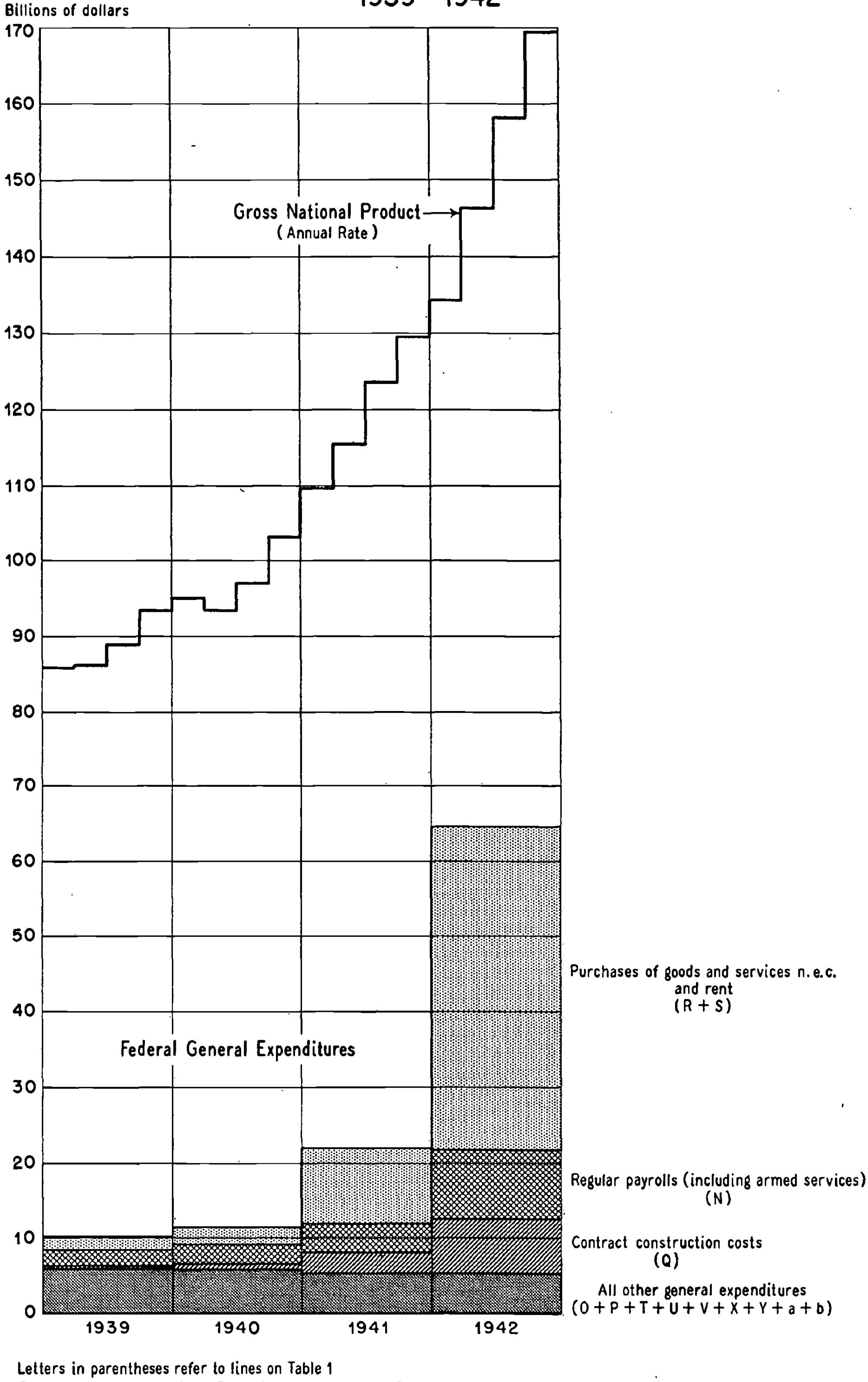
Every item of general receipts (lines A through L) was higher in 1942 than in 1939, but the increase in total receipts (line M) was only about 27 percent of that in total expenditures (line c). Of the $15.1 billion increase in total general receipts (line M), income taxes (lines A and B) accounted for some 60 percent.

The dollar increase in federal expenditures was somewhat less than that in gross national product from 1939 to 1941; the 1941-42 dollar increases in the two series were about equal. From 1939 on, however, this type of comparison understates the stimulus government expenditure programs gave to expanded production, especially in the case of construction and procurement programs. With the rapid growth of the national defense and war programs, contract awards considerably preceded expenditures. Furthermore, the programs themselves and appropriations for them considerably preceded contract awards.

Certain of these comments on the relation between fiscal operations and business conditions during 1938-42 will suggest to some readers that Table 1 gives details rather than a summary. This will doubtless be the reaction of those who view the impact of fiscal policy on business conditions in global terms, i.e., those who

CHART 2

Federal General Expenditures and Gross National Product 1939 – 1942



Letters in parentheses refer to lines on Table 1
For source of Gross National Product figures see note 12.

would advocate developing a single global index of the net federal contribution to community expenditure, an index so adjusted and weighted that it will measure correctly the direction and intensity of the one grand fiscal impulse they conceive as embracing all the constituent impulses imparted by fiscal operations that affect business conditions. Such a view, assuming as it does that, so far as the impact on business conditions is concerned, the whole significance of the various constituent impulses can be measured on a single scale, is one-dimensional. It may well be that much of the time a major part of the significance of these fiscal impulses can be summarized in this simple way. But it seems wise to take account of the possibility that important relations between fiscal operations and business conditions may be overlooked if we confine ourselves to a one-dimensional view.

For this reason, the federal financial statement here proposed does not provide a global index. Rather it attempts to provide something more flexible, a summary analysis of fiscal operations. This analysis can be used in connection with a one-dimensional interpretation. But it can be used also by those who consider it advisable to trace separately the impacts of fiscal operations on each of the various other sectors of our economy.

Thus the information from Table 1 provides a basis for tracing many detailed relations it has not seemed feasible to illustrate more fully here. Federal payrolls can be related to other payroll data; the federal demand for construction work to data on private contract construction; unemployment compensation, relief work payrolls, and public assistance to the volume of unemployment; farm benefits to agricultural income; federal procurement to consumer expenditures and other private demand for goods and services; federal credit to credit data from the balance sheets of banks and other private financial enterprises.

3 Relation to Official Reports

The advantages of the Table 1 form of statement will be clearer if we contrast it to that presented on the 15th of each month in the *Daily Statement of the Treasury*. This basic statement gives detail for five main items pertaining to the General Fund:

a) total 'general and special accounts' receipts into the General Fund (with subcategories by types of receipt);
b) total 'general and special accounts' expenditures from the General Fund chargeable against various appropriations (with subcategories by agency and appropriation item);
c) miscellaneous transactions in the accounts of the General Fund