Perspective

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The Propheteers Were Wrong

by RAYMOND MOLEY

WHAT has happened to the depression which our economic propheteers were predicting last spring? The propheteers are still at the old stands, selling advice, but what they sold with the first violets makes strange reading now. The storm signals were out as early as January. Breast beating boomed all over the land by April. By May the statistical whirling dervishes were foaming at the mouth.

Gloomy predictions reached far-away Moscow, and the Politburo took heart. Ah, this is what Marx predicted; this is the time to get tough. American commies and fellow travelers took up the refrain. Let's get ready for the crash. There will be fine hunting later on.

Since I claim no economic foresight, but must spell out economic trends by laboriously reading the evidence, I turned skeptic in April, in the course of thinking about the possible political repercussions of the predicted slump. Skepticism grew, and on this page in the May 12 edition of this magazine I expressed my doubts about the prophets. My doubts had been reinforced by a comment made to me by B. M. Baruch around May 1. He will surely permit me to reveal it now. He said: "We couldn't have a depression now if we tried."

Business management over the past months has proved to be more foresighted and more skillful than business prophecy. In many lines, inventories of inferior goods were cleared out and better goods were substituted. Business moved in the second half of the year in a sounder condition, enjoying more public confidence and equipped to maintain a steady volume of business.

THE present state of the national income, together with the European stopgap figures, makes President Truman's arguments against tax reduction as bad as the economic prophecies of last spring. Unless all signs are deceptive, there will be money for a tax cut, for sizable debt reduction and for European aid, too. And the proof of this will be a close race between the President and Congress with proposals for a tax cut in January.

Let us look at the figures. The President's estimates in August were that we would receive $41,667,000,000 and expend $37,000,000,000, leaving a surplus of $4,667,000,000. But the surplus will probably be much larger, considering what is happening to our national income.

In the fiscal year ended June 30, 1947, the national income was $191,500,000,000. In the year which began on July 1, 1947, the figure may well be from 7 to 10 per cent higher. Some reasons for expectation are:

1—Wages, on the whole, will be more than 10 per cent higher.

2—Agricultural income will reach unprecedented heights.

3—Dividends and returns in unincorporated businesses will be higher.

4—Landlords will get more rent.

In light of these indications of a higher national income, we may expect a higher tax yield and a larger surplus. It must be remembered, moreover, that the tax return rises relatively faster than the national income, since individual incomes move into progressively higher brackets. How much larger the surplus will be is subject to conjecture. Good estimates put it between $7,000,000,000 and $8,000,000,000.

OUT of this should come $3,000,000,000 for debt reduction. Then the stopgap European help, which the highest State Department estimates put at $800,000,000. The figure for long-term aid, including needs between stopgap aid and June 30, 1948, will go into next year's budget. Therefore, this year there should be in the neighborhood of $3,000,000,000 for tax reduction. A conservative guess is $2,000,000,000.

In any view of the economic road ahead, three inflationary factors must be considered, which we can assume the Administration has not overlooked:

First, the cashing of the GI bonds, which began in September; second, the removal of restrictions on installment selling and buying, set for November 1st; third, a tax cut after the first of the year—a cut which Washington information indicates is inevitable.

The stage seems to be set for business inflation well into 1948. How long that will continue, this writer does not venture to predict. He merely retains a layman's right to doubt the prophets.