CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

HEARINGS

BEFORE THE

JOINT COMMITTEE ON THE ECONOMIC REPORT
CONGRESS OF THE UNITED STATES

EIGHTIETH CONGRESS

FIRST SESSION

PURSUANT TO

SEC. 5 (A) OF PUBLIC LAW 304,
79TH CONGRESS

PART 1

JUNE 24, 25, 26, JULY 2, 8, 9, 10, 14, 15, 16, 17, 1947

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CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

TUESDAY, JUNE 24, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call in the caucus room, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, O'Mahoney, Myers. Representatives Bender, Rich, Hart, Patman, Huber.

Also present: Staff Members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order. Our first witness this morning is Mr. C. E. Wilson, president of the General Motors Corp. Mr. Wilson, will you please take the stand, and if you wish to have anyone with you, you are free to do so.

Mr. WILSON. Thank you, sir.

The CHAIRMAN. This committee is established under the provisions of section 5 of the Employment Act of 1946, and I think it would be desirable to set out in the hearing a copy of the act.

(The Employment Act of 1946 follows:)

[PUBLIC LAW 304—79TH CONGRESS]

[CHAPTER 33—2D SESSION]

[S. 380]

AN ACT To declare a national policy on employment, production, and purchasing power, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Employment Act of 1946".

DECLARATION OF POLICY

SEC. 2. The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential consideration of national policy, with the assistance and coöperation of industry, agriculture, labor, and State and local governments, to coordinate and utilize all its plans, functions, and resources for the purpose of creating and maintaining, in a manner calculated to foster and promote free competitive enterprise and the general welfare, 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.

ECONOMIC REPORT OF THE PRESIDENT

SEC. 3. (a) The President shall transmit to the Congress within sixty days after the beginning of each regular session (commencing with the year 1947) an economic report (hereinafter called the "Economic Report") setting forth (1) the levels of employment, production, and purchasing power obtaining in the United States and such levels needed to carry out the policy declared in section 2; (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 a review of economic conditions affecting employment in the United States or any considerable portion thereof during the preceding year and of their effect upon employment, production, and purchasing power; and (4) a program for carrying out the policy declared in section 2, together with such recommendations for legislation as he may deem necessary or desirable.

(b) The President may transmit from time to time to the Congress reports supplementary to the Economic Report, each of which shall include such supplementary or revised recommendations as he may deem necessary or desirable to achieve the policy declared in section 2.

(c) The Economic Report, and all supplementary reports transmitted under subsection (b), shall, when transmitted to Congress, be referred to the joint committee created by section 5.

COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT

SEC. 4. (a) There is hereby created in the Executive Office of the President a Council of Economic Advisers (hereinafter called the "Council"). The Council shall be composed of three members who shall be appointed by the President, by and with the advice and consent of the Senate, and each of whom shall be a person who, as a result of his training, experience, and attainments, is exceptionally qualified to analyze and interpret economic developments, to appraise programs and activities of the Government in the light of the policy declared in section 2, and to formulate and recommend national economic policy to promote employment, production, and purchasing power under free competitive enterprise. Each member of the Council shall receive compensation at the rate of $15,000 per annum. The President shall designate one of the members of the Council as chairman and one as vice chairman, who shall act as chairman in the absence of the chairman.

(b) The Council is authorized to employ, and fix the compensation of, such specialists and other experts as may be necessary for the carrying out of its functions under this Act, without regard to the civil-service laws and the Classification Act of 1923, as amended, and is authorized, subject to the civil-service laws, to employ such other officers and employees as may be necessary for carrying out its functions under this Act, and fix their compensation in accordance with the Classification Act of 1923, as amended.

(c) It shall be the duty and function of the Council—

(1) to assist and advise the President in the preparation of the Economic Report;

(2) to gather timely and authoritative information concerning economic developments and economic trends, both current and prospective, to analyze and interpret such information in the light of the policy declared in section 2 for the purpose of determining whether such developments and trends are interfering, or are likely to interfere, with the achievement of such policy, and to compile and submit to the President studies relating to such developments and trends;

(3) to appraise the various programs and activities of the Federal Government in the light of the policy declared in section 2 for the purpose of determining the extent to which such programs and activities are contributing, and the extent to which they are not contributing, to the achievement of such policy, and to make recommendations to the President with respect thereto;

(4) to develop and recommend to the President national economic policies to foster and promote free competitive enterprise, to avoid economic fluctuations or to diminish the effects thereof, and to maintain employment, production, and purchasing power;

(5) to make and furnish such studies, reports thereon, and recommendations with respect to matters of Federal economic policy and legislation as the President may request.

(d) The Council shall make an annual report to the President in December of each year.

(e) In exercising its powers, functions, and duties under this Act—

(1) the Council may constitute such advisory committees and may consult with such representatives of industry, agriculture, labor, consumers, State and local governments, and other groups, as it deems advisable;

(2) the Council shall, to the fullest extent possible, utilize the services, facilities, and information (including statistical information) of other Government agencies as well as of private research agencies, in order that duplication of effort and expense may be avoided.

(f) To enable the Council to exercise its powers, functions, and duties under this Act, there are authorized to be appropriated (except for the salaries of the members and the salaries of officers and employees of the Council) such sums as may be necessary. For the salaries of the members and the salaries of officers and employees of the Council, there is authorized to be appropriated not exceeding $345,000 in the aggregate for each fiscal year.

JOINT COMMITTEE ON THE ECONOMIC REPORT

SEC. 5. (a) There is hereby established a Joint Committee on the Economic Report, to be composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives, to be appointed by the Speaker of the House of Representatives. The party representation on the joint committee shall as nearly as may be feasible reflect the relative membership of the majority and minority parties in the Senate and House of Representatives.

(b) It shall be the function of the joint committee—

(1) to make a continuing study of matters relating to the Economic Report;

(2) to study means of coordinating programs in order to further the policy of this Act; and

(3) as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than February 1 of each year (beginning with the year 1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable.

(c) Vacancies in the membership of the joint committee shall not affect the power of the remaining members to execute the functions of the joint committee, and shall be filled in the same manner as in the case of the original selection. The joint committee shall select a chairman and a vice chairman from among its members.

(d) The joint committee, or any duly authorized subcommittee thereof, is authorized to hold such hearings as it deems advisable, and, within the limitations of its appropriations, the joint committee is empowered to appoint and fix the compensation of such experts, consultants, technicians, and clerical and stenographic assistants, to procure such printing and binding, and to make such such expenditures, as it deems necessary and advisable. The cost of stenographic services to report hearings of the joint committee, or any subcommittee thereof, shall not exceed 25 cents per hundred words. The joint committee is authorized to utilize the services, information, and facilities of the departments and establishments of the Government, and also of private research agencies.

(e) There is hereby authorized to be appropriated for each fiscal year, the sum of $50,000, or so much thereof as may be necessary, to carry out the provisions of this section, to be disbursed by the Secretary of the Senate on vouchers signed by the chairman or vice chairman.

Approved February 20, 1946.

The CHAIRMAN. The joint committee is composed of seven Members of the Senate, to be appointed by the President of the Senate, and seven Members of the House of Representatives to be appointed by the Speaker of the House of Representatives. The act provides that it shall be the function of the joint committee—

(1) to make a continuing study of matters relating the Economic Report;
(2) to study means of coordinating programs in order to further the policy of this Act; and
(3) as a guide to the several committees of the Congress dealing with legislation relating to the Economic Report, not later than May 1 of each year (beginning with the year 1947) to file a report with the Senate and the House of Representatives containing its findings and recommendations with respect to each of the main recommendations made by the President in the Economic Report, and from time to time to make such other reports and recommendations to the Senate and House of Representatives as it deems advisable.

In a broader way our function is to try to develop governmental policies which may prevent the development of any depression, and consequently at this time we are interested in hearing from the business, labor, and agricultural interests of the country as to whether they think there is something which threatens the present condition of full employment, and also whether they think there is anything the Government can do about it, and if they do, what they think the Government should do, what powers might be granted by Congress, or what general policies might be adopted by the Executive.

You have a statement, Mr. Wilson, that you have filed with the committee, and it will appear in the record. Do you wish to proceed with your statement now?

STATEMENT OF C. E. WILSON, PRESIDENT, GENERAL MOTORS CORP., DETROIT, MICH.

Mr. Wilson. I think that would be the best way to do.

The Chairman. Our general plan is to have about an hour or so for each witness, perhaps 20 minutes or longer for the statement, and then questions by the members of the committee. You may proceed.

Mr. Wilson. My name is Charles E. Wilson, and I am president of General Motors Corp. I am here at the invitation of your committee to testify regarding economic and social matters that affect the welfare of the Nation. I understand that your committee under the Employment Act of 1946 is charged with the responsibility of making recommendations to the Congress in respect to those matters of Government policy that have to do with the maintenance of a maximum of useful employment opportunity in free competitive enterprise.

As background for my remarks and recommendations I should first like to make some comment about General Motors, the automobile industry, and what I consider the essential elements of a free competitive system.

On March 22, 1944, I testified before the Special Committee of the House of Representatives on Postwar Economic Policy and Planning. The concrete plan General Motors had worked out for reconstruction, rehabilitation, and reorganization following the war is a matter of record in my testimony before that committee. This plan was put into effect immediately after the Japanese war, but progress was halted by a disastrous strike in the plants of General Motors and crippling strikes throughout industry generally. So after almost 2 years of peace we have fallen far short of what we had hoped to do.

As a result of the war and its troublesome aftermath, automobile production is far behind the country's need. This is clear when we consider that in the five prewar years 1937–41 the industry produced and sold 19,800,000 cars and trucks for civilian use; while in the five following years, including the war years, we produced only 3,800,000 for civilian use, a difference of 16,000,000.

In spite of all these production difficulties and the serious increase in costs, automobiles are still among the best bargains offered to the American public today. Throughout the country thousands of automobile dealers are selling cars for less than the public thinks they are worth and is currently willing to pay for them. The purchaser of a new car can immediately sell it in the open market for hundreds of dollars more than he paid our dealers for it. Some new purchasers have succumbed to the temptation to make this easy profit, hence the 1947 models on the used car lots at premium prices. Good automobiles have such recognized value that they are almost like money in the bank; and when our dealers sell $10 bills for $8 it isn't surprising that some of the purchasers use them for 10's.

Cars and trucks are so important to our American way of living and the unsatisfied demand for them is so great that more materials to work with is all the automobile industry needs now to do its part in maintaining a high level of prosperity. The industry alone, with its big use of raw materials, the millions directly and indirectly employed, and its stimulating effect on other industries and business generally, practically underwrites a high level of industrial activity for at least several years to come unless we have another wave of monopolistic and crippling strikes or a world catastrophe.

What the country needs most today is continuous, uninterrupted, efficient production. To make this possible the Nation must be protected from organized unemployment; that is, monopolistic strikes that paralyze whole vital industries or shut down one important community after another. The majority of the people of our country recognize this truth and an important step in this direction has been taken by Congress.

The development and production of our American automobiles is one of the best examples of what can be accomplished for the people of a Nation by the normal working of free competition in a free society. I have been associated with this development for 35 years. When I started with the industry its total production from its beginning had just reached 1,000,000 cars and trucks. Since that time 93,000,000 vehicles have been produced, and in addition more than 25 billion dollars' worth of war materials.

I think I understand what has made this industry develop and flourish and how it has been possible for it to make its outstanding contribution to higher American and world-wide living standards. This achievement has been possible only under a political system that recognized human rights in person and in property and that promoted the initiative of millions of freemen rather than the dictatorship of a few state planners. Customers are the only economic dictators that can be tolerated in a free society.

While this system is the best that has ever been devised, I still am in favor of making every effort to improve it with the objective of maintaining a high level of employment and of real purchasing power. However, in adopting policies or establishing regulations intended to accomplish this desirable purpose we must be very careful not to so restrict the initiative of individuals that we wind up by defeating the very purpose we intend to accomplish.

It is well to remember that our Americanism is still the new revolutionary, liberal philosophy in the world. Those who advocate communism, socialism, or any form of statism, while flying the flag of liberalism, are in fact reactionaries, advocating a system which would enslave the people of a nation. While mechanical and scientific invention is continuing at a rapid pace in many parts of the world, politically a great step backward has been taken in some countries.

We again have slavery in Europe and a new form of serfdom where men and women are arbitrarily bound to their jobs and their machines if they are to have food cards and eat. The new dictators claim their reactionary philosophy is in the interests of the people, but they enslave the people just the same. Our system in America with public education and individual freedom for all citizens develops ability, provides individual opportunity, stimulates ambition, and greatly accelerates scientific discovery, invention, and the development and use of natural resources. This dynamic force that contributes so much to the health, prosperity, and happiness of Americans must be preserved at all cost.

Ours is the only important country in the world that has recognized the importance of free competition as evidenced by its enactment of antimonopoly and antitrust laws. It is clear that this same basic principle must also be applied to monopolies in labor. Failure to do this may well result in a business recession and chronic unemployment. We don't believe in business cartels in our country, and we can't stand for labor cartels either.

Before discussing measures to improve our system, a clear understanding of some of the important fundamentals of the system will be helpful. What are the fundamental principles that make our system work? Among others, the following seem to me to be highly important:

1. The necessity and responsibility for each citizen to qualify through education, experience, and willingness to work to make a social and economic contribution in proportion to the reward he expects to receive. This requires dropping the false philosophy that the state should look after the economic welfare of individual citizens and returning to the sound philosophy that each should make the effort to look after himself, and that the millions can plan their own lives better than a few state planners can plan for them. It does require continuing our system of public education so that all young people may have opportunity to qualify in line with their ambition, ability, and willingness to work.

2. The principle that thrift and industry must have their reward and laziness and dissipation pay their penalty. This is a sound incentive for all. If it is importantly violated by state planning, the negative incentives of fear and coercion must inevitably be substituted for the positive incentives of a free society.

3. The recognition that we can all have more only if we produce more. It requires reasonable hours of work as compared to leisure time, and continuing progress in making available better tools and

methods for doing all the kinds of things that have to be done to deliver products and services to customers. It requires giving up the false philosophy of something for nothing and that prosperity for the Nation can be achieved without efficient work by redividing the accumulated wealth of the past. To provide better tools, capital must be accumulated through savings to pay for them. The hope of profits is the incentive that encourages people to save, to invest their savings in productive enterprise, and to develop new businesses.

4. Customers must have free choice in the expenditure of their earnings and savings. An economy of plenty is the natural result of free competition, and the false philosophy of prosperity through regimentation and scarcity must not be encouraged, especially by law.

5. Respect for law and the rights of all citizens and the development of a social consciousness in our business and human relations. None of us can live entirely by his own efforts. To a great extent, we are all dependent upon one another, not only for health and safety but for our very existence.

In the light of these fundamentals, what are some of the major problems involved in maintaining full opportunity for employment?

The CHAIRMAN. Excuse me a moment, Mr. Wilson. I meant to say that Senator O'Mahoney was very anxious to be here but had an appointment with General Marshall at 10 o'clock this morning and wanted me to announce that that was the only reason he was not here. He hopes to be here with us before you conclude.

Mr. WILSON. Thank you, sir.

As I was saying, in the light of these fundamentals, what are some of the major problems involved in maintaining full opportunity for employment?

1. Balancing supply and demand: The problem of dealing with temporary shortages and surpluses of goods and services.

Ordinarily, a free competitive system if allowed to function normally has inherent within it the power to balance supply and demand effectively. However, this requires that everyone concerned be informed of the facts so that they will be in a position to act intelligently and promptly in remedying the situation.

If the production of a certain product is in excess of the demand so that inventories are increasing unduly, production and/or prices must be adjusted to meet the situation. An accurate knowledge of the facts regarding such situations is very important because otherwise the producers may continue to produce and only add to the surplus supply, thus making the eventual readjustment that much worse. Conversely, if items continue in short supply and in great demand it is normal for the prices to increase, thereby stimulating production and to some extent temporarily curtailing the current demand, tending to bring supply and demand into balance. The balancing of supply and demand for all items can be taken care of only by a gradual shift in the employment of labor and capital from one industry to another and of labor from one occupation to another. The system must be flexible enough to allow this to be done promptly.

Of course, when the normal functioning of the system is interfered with for a considerable period of time, as by wars or major strikes, it takes longer afterward and more patience to surmount the problems created by such wars or strikes and to bring supply and demand into balance.

Accurate knowledge of the current level of production, demand, and inventories of all major commodities at the various levels of the economic process—manufacturing, wholesaling, and retailing—is essential. It is clearly a proper function of Government to assist in the collection and publication of such business statistics. Obviously, we must have accurate information of this nature to assist producers and consumers in appraising the market.

2. The business cycle: In the report of your committee to the Congress on the President's Economic Report your committee made this statement:

> The basic problem which this committee has to consider is the method of preventing depressions so that substantially full employment may be continuously maintained. No problem before the American people is more vital to our welfare, to the very existence of our way of life, and to the peace of the world. It is the most complex and difficult of the long-range domestic problems we have to face. It involves a study of price levels and wage levels and their relation to each other, a study of methods of preventing monopoly control in industry and labor from distorting prices and wages, a study of spending for consumption and for capital investment, a study of individual and corporate savings, and a study of many other economic forces bearing on a stable economy.

This is indeed a difficult problem because it involves not only balanced production but willingness to buy, which depends both on ability to buy and confidence to buy. This is why it is so desirable to preserve the integrity of the monetary system of the Nation, why it is so necessary to have a favorable attitude toward business on the part of Government, and why the confidence of the buying public must be maintained by having them feel that they are getting value received for the current dollars they are spending. The problem of maintaining confidence on the part of the buying public and of investors can be compared with the problem of maintaining harmonious labor relations and industrial peace.

I am sure your committee is fully aware of the intricate nature of this problem which is of such vital concern to all citizens. Judging from previous business depressions, the causes were never exactly the same. Furthermore, many of these causes lie beyond any control which businessmen or the consuming public themselves can directly exercise on the situation. Among these are wars, crop failures, economic restrictions imposed by foreign nations that have domestic repercussions, legislation affecting the integrity of the currency, and unsound political policies which take some time for the public to correct. Any one of these may temporarily undermine the confidence of the buying public and result in a recession.

There are other causes which are within the control of the people of the Nation, individually and as producing and consuming groups; for example, overconfidence and speculation on credit, artificial shortening of working hours, monopolies of any kind which interfere with the movement of labor and capital from one industry to another or artificially restricting production and job opportunity.

There is a serious economic heresy that constantly keeps cropping up in all of the discussions of this problem of maintaining a high level of employment. It is that we can maintain such employment only by rapidly increasing the wages of factory workers. Such rapid increases in wages without any corresponding increase in productivity is essentially inflationary since these increases require corresponding increases in prices.

While the workmen involved in such wage increases might temporarily seem to gain thereby, actually they do not. For other producers, who are in the great majority, raise the prices for their goods and services, eventually bringing about a parity in the value of all goods and services throughout the economy, but with a lessened demand.

This does not seem to be clear to some who argue that such an inflation would do no particular damage since a balance in prices would ultimately be restored. Actually, great damage is always caused by such inflation. It writes down the value of all savings in terms of current purchasing power, thus importantly affecting both the ability and confidence to buy on the part of those dependent on savings, annuities, or any form of fixed income, even for their services.

Furthermore, greatly increased working capital is required to maintain a given volume of business. This additional capital in terms of dollars cannot be currently earned as rapidly as the inflation requires. Therefore, either prices must be raised in the effort to accumulate the capital required, thereby curtailing demand and resulting in unemployment, or businessmen are forced to restrict their activities within the limits of their available capital, resulting in a curtailment of production and again causing important unemployment. This is why no nation ever achieved prosperity through inflation.

In the final analysis employers do not pay wages, customers do; and the percentage of the consumer's dollar required to provide equipment and a place to work, and as an incentive to save and expand the economy of the whole country has been estimated to be, with a stabilized economy, on the average about 15 percent. This covers all rents, interest of all kinds, dividends, and accumulated profits retained in businesses to expand them. The balance of 85 percent shows up somewhere in somebody's wages or salaries. However, in an inflationary period, when the value of savings is being written down, profits must be much greater in order to accumulate enough capital to maintain a high level of physical production. In such a period prices must go up even faster than wages in order to keep businesses going. In such a period customers restrict their purchases. Therefore, when some workers price their labor so high that the workers in other industries, other producers and consumers generally, cannot buy their products and industry and business cannot make enough money to maintain working capital and replace worn-out equipment, there is bound to be a curtailment of employment until the situation is corrected.

3. The importance of maintaining productivity: It was the enormous productive ability of the United States that was our real secret weapon during the war. If our enemies had believed that it would have been possible for us to do what we did, in the way of design and mass production of totally new articles, and our ability to convert from the mass production of peacetime goods to weapons of war, they would never have dared to attack us. It was this same productive ability which prewar gave our country the highest standard of living ever achieved by any nation. This same productivity under our American system of free competition is the means for achieving the postwar prosperity we all dreamed about during the war years. But we must stick to our system and not attempt to substitute too much state planning for the initiative of the millions.

In this connection, I can do no better than to quote a statement which Senator O'Mahoney made on the floor of the Senate on May 19, 1947, as follows:

> What this country needs more than anything else, and what the world needs more than anything else, is the stimulation of production. Nothing else will solve our problems; and the wider we make the field of productive opportunity the closer we shall be to a successful solution of the problems which are bringing this country to the brink of the same sort of disaster which has overtaken the countries of Europe, the erection of arbitrary central power.

One of the fundamental reasons why this country enjoys the highest productivity of any nation on earth, and hence the highest living standards, is that we have better tools. A Chinese laborer, laboring all day with a pick and shovel, earns a bare pittance—hardly enough to keep him alive, and frequently not that much. An American worker, with a bulldozer, accomplishes 1,000 times as much useful work in the same time, because he has a machine equal to several hundred horses. I could extend and expand this comparison indefinitely, but the fundamental is inescapably the same. It is that only as we continue to increase our productivity can we have more goods to enjoy, and can we afford to have the leisure in which to enjoy them.

But better tools and equipment do not spring full blown out of the mind and hands of one man. They are the product of long hours of research, of the painstaking application of such knowledge to the design and production of better products by competent management. They require large investments in productive equipment, efficient sales forces, and efficient and aggressive workmen. Only as we can increase our productivity further can we hope to continue to raise our standard of living in the terms in which it can concretely be measured, the goods and services we use.

Now, if the only way by which we can maintain and increase our standard of living is by increasing our productivity, it follows that any policy which increases our productivity is economically sound, and any policy that diminishes our productivity is economically unsound. This is true of governmental policies—Federal, State, and local—as well as industrial and labor-union policies. This is the heart of the matter; our productivity must be maintained and increased. If we want more, we must produce more. We cannot eat food that has not been produced. We cannot wear clothes that have not been made. And if we want more food and more clothing, without working unduly long hours, we can have them only by better management, better tools, and more efficient labor and use of our resources.

All present legislation affecting this problem of high employment opportunity should be reviewed to make sure it is consistent with the fundamental principles of our system and whether it really accomplishes the purposes for which it was intended. Any new legislation proposed to improve our competitive system should likewise be checked.

To balance supply and demand and increase productivity without serious unemployment requires the right attitude on the part of workmen, a willingness to learn new jobs and achieve the extra production made possible by improved processes and the superior tools provided. Otherwise the fruits of technological improvements are dissipated through featherbedding. Likewise, to balance supply and demand and to increase productivity without unemployment requires the right attitude on the part of industry and businessmen generally to accept the challenge of competition and to strive to earn profits by delivering an ever-better value for the customer's dollar, and not just to sit by and collect a toll. Only this will maintain confidence of customers.

Government can help, not by going into competition with its citizens nor by attempting to regulate production, wages, and prices, but by legislation which fosters free competition both in business and labor. The peaks and the valleys of the business cycle can be importantly influenced and leveled out by sound fiscal policies on the part of the Government. Government policies should not promote inflation, and needless taxes must not be collected from the people. Federal expenditures not directly contributing to the welfare and standard of living of our citizens must be avoided. Such nonproductive governmental expense reduces the average standard of living by about the same proportion of the national income that it represents. All citizens must realize we cannot have an economy of plenty if millions look to the Government for something for nothing and do not make the effort to look after themselves. Government policies must encourage individual competence and not subsidize inefficiencies and laziness in any form.

In concluding my formal statement, I should like to show the committee an interesting chart. This chart traces our production costs of Chevrolet cars, by years, from 1928 to date, compared with the average wage rate in United States manufacturing industry, and three of the six components of the Consumers Price Index of the Department of Labor during the same period, each of which also has a high labor content.

The Chevrolet costs are the costs of the cars actually produced in each of these years. They are not entirely comparable from year to year since technological improvements were largely devoted to making the cars bigger and better. Even with this qualification, the chart is very revealing. It shows that the costs of our cars increased and decreased with the country's manufacturing wage level. When we got back into production in 1946, making substantially the same car that we stopped producing almost 4 years before, our costs had risen almost exactly in the same percentage as the increase in the national wage level. The relations both of Chevrolet's costs and the country's wage level to the three components of the living cost index are now almost exactly the same as they were in the prewar base years 1935–39. I know of no more concrete evidence of the inescapable relationship between wages and prices, and no better evidence of the fallacy of the doctrine that inflating wages will increase real purchasing power.

The CHAIRMAN. Mr. Wilson, the price of automobiles, you say, is below what people are willing to pay for them, but how much of an increase has there been since 1935–39, approximately?

Mr. WILSON. I will have to look at some of my charts here. I have another chart here showing the prices from 1941 to date. If you refer back to this curve on the Chevrolet costs——

The CHAIRMAN (interposing). This gives the costs but not the prices.

Mr. WILSON. The relation of costs to prices is relatively consistent.

The CHAIRMAN. Can you tell us how much the standard Chevrolet has increased since 1939? That is, the price.

Mr. WILSON. It would be about 80 percent since 1939.

The CHAIRMAN. About 80 percent?

Mr. WILSON. Yes, sir.

The CHAIRMAN. Do you look for any further increase during the next year, or what is your general view as to the course of prices during the next year?

Mr. WILSON. I am very hopeful that prices, wages, and costs will stabilize somewhere near the present levels for awhile and that people will go to work and bring supply and demand into balance.

However, there is no real evidence that the inflationary trend has stopped.

The CHAIRMAN. You have just settled a new wage contract for another year, is that correct?

Mr. WILSON. Yes; in April.

The CHAIRMAN. So that is stable for another year?

Mr. WILSON. That fixes the question of wage costs in our own plants but not in the plants of our suppliers of materials and parts, so there is a continuing upward trend now in our material costs; and basic materials like copper and lead are quite important.

The CHAIRMAN. How does the profit per unit today on a car compare with 1939?

Mr. WILSON. I don't have the figures too handy. I think it is probably about the same.

The CHAIRMAN. When I say "1939," I mean prewar.

Mr. WILSON. The profit margin, Senator, is not as good as it was prewar.

The CHAIRMAN. The profit margin per unit?

Mr. WILSON. That is correct.

The CHAIRMAN. And you are producing about the same number of units?

Mr. WILSON. Of course, that varies a good bit with different years prewar. The total production of the automobile industry is currently equal to a very good prewar year. It is quite short of what the industry thought it could do or have the capacity to do.

The CHAIRMAN. Can you put in the record the comparative profit margins and the comparative prices in connection with your testimony?

Mr. WILSON. Yes; we can do that.

(The matter referred to is as follows:)

General Motors Corp. net profits on net sales before and after United States and foreign income and excess-profits taxes, first quarter of each year

Year	Before taxes	After taxes
1939	18.1	14.5
1940	18.6	14.6
1941	20.0	10.0
1947	15.0	9.2

The CHAIRMAN. Can you give us an idea how much wages may have been increased since 1939 in the automobile industry or in your company, percentagewise?

Mr. WILSON. I happen to have in this chart here the United States total, and the automobile wages have been about the same as other wages, perhaps not quite as high a percentage.

The CHAIRMAN. That is, has 80 percent?

Mr. WILSON. As an average of the whole country.

The CHAIRMAN. How much is that?

Mr. WILSON. The whole country has gone up about 80 percent.

The CHAIRMAN. The whole country has gone up about 80 percent? Is that hourly work rates, hourly wages?

Mr. WILSON. That is right. The United States manufacturing average hourly wage rates are up about 80 percent.

The CHAIRMAN. How about the automobile industry or your own company?

Mr. WILSON. That is just about the same, maybe a little less. The tendency has been to raise wages in lower rated classifications and, perhaps, take some of it away from the better workmen and give it to the less efficient or unskilled.

The CHAIRMAN. They all go up, but the average rate of increase is different?

Mr. WILSON. You see, if you give everyone 10 cents an hour or 15 cents an hour or 4 cents an hour, you start from a normal spread, perhaps, between janitor and toolmaker of 2 to 1.

The CHAIRMAN. It gives a bigger percentage for the person with the smaller wage.

Mr. WILSON. Yes, and a lesser percentage for the skilled and perhaps more capable men.

The CHAIRMAN. Has the productivity of labor increased in the automobile industry since prewar 1939, do you know? Have you any figures or means of determining that question?

Mr. WILSON. I judge you mean by that how close do the men come to meeting the same reasonable labor standards for a day's work.

The CHAIRMAN. You talked about productivity all through your testimony. That is, whatever you are talking about.

Mr. WILSON. Productivity is a matter of two things. If you give a man better tools he can produce twice as much, twice as many pieces, and not work any harder, or he can work with less energy and produce the same number of pieces, and that is what we call featherbedding, that is, when you give him better tools to work with and he produces the same number of pieces.

The CHAIRMAN. Are there any figures to show whether productivity has increased or decreased since prewar?

Mr. WILSON. It has not increased from the point of view of manpower.

The CHAIRMAN. The amount of production per man-hour?

Mr. WILSON. That is right, but men are doing pretty well in our plants as compared with prewar, judged by how close they come to producing the standards. I would say that as a general matter we are within a few percent of our best prewar record.

The CHAIRMAN. Mr. Wilson, you say that cars are still so scarce that the demand exceeds the supply, so to speak, at the manufactured price level. Would you favor the reimposition of the price controls? They haven't expired yet, I think, until next Monday. I think the President could still reimpose them.

Mr. WILSON. No; I wouldn't. I think the faster we get back to a free economy, the better off we will be.

The CHAIRMAN. What other recommendation would you suggest? What is the present excise tax on cars?

Mr. WILSON. It is 7 percent.

The CHAIRMAN. Would there be any sense putting a temporary 20-percent excise tax on them and let the Government get the difference instead of the black market?

Mr. WILSON. I am a consumer also. I think I am taxed enough currently.

The CHAIRMAN. I thought where you had this condition, possibly, you could demand a higher price and let the Government get the difference.

Mr. WILSON. I think it is a little late to do some of those things. It might not have been so bad as a sound policy in the immediate postwar period while the Nation did have a tremendous expense of getting back out of the war period, but I think someone had better be thinking how that 7 percent could be taken off about a year from now to keep the demand going.

The CHAIRMAN. You think that the condition is temporary and will come to an end in another year?

Mr. WILSON. Oh, yes.

The CHAIRMAN. You think you will catch up with current demand in another year or, at least, the violent demand where people are willing to pay more than the price?

Mr. WILSON. The people are actually paying almost as much for a 5-year-old used car in good condition as they could buy a new car for from the dealer if they could get delivery. That situation will be corrected, but the shortage of 16 million cars and trucks that I mentioned as being the difference between what the industry could have produced or would have produced on a normal average basis, equivalent to the five prewar years—that means there is a terrific shortage and many old cars are being operated that shouldn't be on the road. They are being maintained in some operative condition at considerable expense by the owners, who would much rather have some new cars.

The real trick is to keep the economy of the country going and let us make the cars for the people. The principal current shortage that limits production is flat-rolled steel; but if the steel industry had not been curtailed by the coal strike and the strikes in their own plants in 1946 I understand it would have produced around 19 million more tons of ingot steel.

The CHAIRMAN. More than they did?

Mr. WILSON. More than they did, and something around 12 or 13 million tons of finished steel. That would have made a lot of automobiles and trucks and a good many other things that the public needs badly.

The CHAIRMAN. Mr. Wilson, you spoke of the high desirability of a proper statistical service of the Government—I suppose assisted by the industries themselves, perhaps.

Mr. WILSON. Yes, sir.

The CHAIRMAN. Do you have any views as to the efficiency of the present service? Should this be carried on through the BLS or the Department of Commerce or should there be one service? What would be your suggestion?

Mr. WILSON. We use the statistics from all sources down here as best we can. We found out in the automobile business a good many years ago how highly important it was to follow the actual demand, inventory, and production situation. Fortunately, in the automobile industry we have very good statistics that come through registrations, so we can tell in a reasonably short time, just a few days or weeks at the most, how many cars of all kinds the consuming public actually buys from our dealers.

A good many years ago the different automobile companies would build up their production when they thought they had a good model. We didn't know in those days whether the dealers were actually selling them to the public or not, and some times we would wake up with orders from dealers for thousands of automobiles, and they would have their places full of new cars, and we would have to cut our production.

So, for many years we have followed very closely the actual movement of cars at retail into the hands of the public; and we attempt to adjust our production schedules gradually up and down, so we don't have any great big changes.

The CHAIRMAN. I wonder if you have any suggestions for the improvement of the statistical services other than giving them more money, in which connection I do not think the Congress has been very generous.

Mr. WILSON. I think the best way to do that would be to talk it over with the groups of people in the various industries using those statistics and see what the information is that can be used.

The CHAIRMAN. Do you have any suggestions?

Mr. WILSON. The problem is a little bit like any other compilation of data. If it isn't in a form that somebody can use or does use, why, you are just wasting the money, but it is a very sound thing to do.

The CHAIRMAN. If you have any suggestions specifically regarding the Government services or their combination or improvement, if you will write a letter to me or the staff director, it will be very much appreciated.

Mr. WILSON. We will do that.

The CHAIRMAN. Do you have any questions, Senator Flanders?

Senator FLANDERS. Yes, sir; thank you.

Mr. Wilson, assuming there is such a thing as a business cycle, what stage of that cycle are we in now so far as you can judge? Are we at the peak, on the way up, or on the brink of a drop, or where are we?

Mr. WILSON. That is what they call a $64 question.

Senator FLANDERS. On page 9 of your testimony you indicated that it was intricate.

Mr. WILSON. I think that the impetus, the great demand for goods and services immediately after the war, has somewhat slowed down. I think in the last 2 or 3 months there are two things that sort of hung over the country. One was so much pessimistic talk coming from down here about all prices being too high, and so forth, and a push on the end result rather than on the causes for the prices was a disturbing influence generally.

The second thing is one that I think we are all conscious of, and that is what the miners are going to do after the Fourth of July and how that problem can be dealt with soundly, fairly to the miners, but not upsetting the whole Nation.

I think those two things are still hanging over the country. You have the propaganda that prices are too high and profits excessive, and the problem, Are we going to keep up and increase our production or is the whole machine going to be stalled for 2 or 3 months?

Senator FLANDERS. Would you think it possible under favorable conditions to continue our present rate of production and consumption for an indefinite period?

Mr. WILSON. I see no reason why that shouldn't be so. That is, I see no fundamental reason why we should have a depression, if the American people are willing to work for the kind of things they would like to have.

Senator FLANDERS. You spoke a moment ago of the propaganda—perhaps that is the word—relating to prices being too high without getting at the causes. Would you mind giving your own view as to the causes of existing high prices, if they are high?

Mr. WILSON. There are two basic reasons. The first is the fact that we did not finance the war in terms of money as we went. Of course, we did in terms of production of goods.

In other words, no nation sent us anything from outside our country to help us in the war. We didn't stock pile war materials before, as, perhaps, the Germans did; so we actually physically produced the war's requirements and lived on what we had left over.

However, from a money point of view we didn't pay for it as we went.

Being used to looking at production in terms of physical things, more than in terms of money, I always thought that if it had been politically expedient to do it, we could have paid for the war as we went, but we didn't. All those bonds that are outstanding give their owners a call on the goods and services of the people currently the same as the salaries and the wages that are being earned by people, so that puts a pressure on goods and services.

It is the ability to buy assuming that you can convert the funds into goods and services, and the theory is that if anyone wants to do it he can—that puts a grave demand upon materials, so that there is a tendency to mark up prices.

The other reason for high prices is pressure of wage inflation. Of course, that was the problem during the war, too, and as soon as the war was over a great push was made by the powerful labor unions to break the country's wage, price, and anti-inflation policies, and they were pretty well broken.

Senator FLANDERS. With regard to the first cause you gave for high prices, would you feel that the proper remedy was reduction of the national debt, or do you feel there is any remedy for high prices in debt reduction?

Mr. WILSON. Well, of course, some gradual reduction of debt would have that tendency without any question.

Senator FLANDERS. You have no question but what increases would have the opposite tendency, increases in the national debt?

Mr. WILSON. Increases in the national debt, of course, would be a continuing inflationary thing. The Germans, after World War I, tried a great experiment in that direction and ran into a bitter end and had an economic collapse. They had to start over again with a new currency, and probably laid the foundation for World War II.

Senator FLANDERS. On your second cause for high prices, in your experience, whether in your own company or as you have seen it in other companies, has the tendency been to increase the wage rate faster than the cost of living? Has there been any effect on prices from that standpoint?

Mr. WILSON. I think there undoubtedly was a push to increase wages much faster than the cost of living, and it came about through a demand immediately after the war was over for the same take-home pay for 40 hours of work as the men had enjoyed during the war for 48 hours.

You will recall that we had three Government policies during a very short period in the fall of 1945 and early 1946. The first one, announced immediately when the war ended, was apparently an effort to maintain wages and prices and avoid inflation. It was that employers would be relieved of wage controls and could raise wages or salaries if they would not use that added cost as a reason for increasing prices or for resisting a reduction of prices that should otherwise be made.

Well, that didn't actually free anybody to do anything if he did it honestly, and it didn't answer the problems from the point of view of the labor unions at all.

The second policy, announced about the end of October 1945, was that wage rates could be increased by the same percentage over the base period as the cost of living had gone up, if they had not already been raised that much, and that the resulting increase in cost might be used as a reason for increasing prices.

It didn't say that necessarily those prices would be allowed by OPA, which was still in existence.

Then, after the strikes, there was a definite new establishment of a wage-price level by a definite inflationary move. A new general pattern was established by the settlement of the steel strike. So that we had three changes, three changing policies affecting wages, prices, and inflation.

Senator FLANDERS. Has there been an assumption on the part of union negotiators that there is something to be taken out of profits in most industries? Has that been the assumption on which they have asked for increases in wages at times when increases in prices were under the ban?

Mr. WILSON. It depends on the particular union negotiator and how close he is to the party line. If he leans a little toward our Russian friends, he doesn't believe in the private ownership of productive property to begin with, so he doesn't think we ought to have any return on it or very little. If he is a good American, he says, "I want to take care of my men. The rest is your business. You get along as best you can." So it is somewhere in between.

Senator FLANDERS. Sometimes in some places you feel that that party line has been a definite factor?

Mr. WILSON. Yes, surely.

Senator FLANDERS. You make here on page 10 a very interesting analysis of required additional capital. That is at the foot of page 10. In other words, a larger percentage margin or, at least, dollar margin as inflation increases and prices go up.

Mr. WILSON. That is right.

Senator Flanders. That point is an interesting one. I have never seen it stated just that way before. That is something of which you are quite convinced?

Mr. Wilson. I would like to talk about that one a little more. It is a very simple, understandable one.

You have an inventory in a manufacturing business; you have it in a commercial distributing business.

Now, in General Motors we have the raw materials and the parts in process and some finished stock about ready to be shipped, and so forth. With an 80-percent inflation, if you have the same physical parts in a shop, the same tons of sheet steel, copper, lead, parts in process of manufacture, that inventory now is 80 percent higher in dollar value than it was prewar.

With some increase in activity and employment in General Motors, inventories are currently about $700,000,000 as against about $350,000,000 prewar. Now, where do we get that other $350,000,000? We borrowed some of it from insurance companies and sold some more preferred stock.

There is another interesting thing. Let's take a small business which perhaps has a couple of million dollars' sales a year and has a million dollars invested in plant and equipment.

That was their condition, we will say, 12 or 15 years ago when they started a new activity. They got along all right and averaged about 5 percent profit after taxes for 10 years, which would be $100,000 a year. According to the books, they were making $100,000 a year. They paid out two-thirds or so of it in dividends and had the rest in cash in the bank.

Now, after the war they find out that their plant is old and their machinery is worn out and they have to replace it. In the meantime, they have had a sound bookkeeping set-up. They have accumulated a reserve against depreciation of their machinery, and they now have a million dollars cash in the bank and the plant is worn out.

Now, they try to replace that plant and it cost $2,000,000. Well, they actually thought they were making $100,000 a year for 10 years and really they didn't make anything. They were like a farmer raising wheat every year and not putting any fertilizer back in the ground. Such a farmer sells his farm a piece at a time year by year. Such is the effect of inflation.

I have been quite interested in this effect of inflation. Some people argue that prices only have to go up 50 percent or 75 percent, as fast as wages. My figures seem to show on the past record, about 85 percent of all costs are wages. Well, if you could actually improve the status of all the people in the country by inflating the currency, why do we fool around with 10 or 15 percent every 6 months? Why not jump it five or six hundred percent at once and everybody would be prosperous? That has been tried over the world by many nations many times and instead of creating prosperity it has always impoverished the people.

The basic reason is this one: That you cannot accumulate the additional capital rapidly enough in current dollars required to maintain the business structure of the Nation. That is the real reason. You know, if we were all just picking bananas in the South Seas and selling them to each other and eating them the following day, in the case of inflation it wouldn't take very long to bring wages and prices into balance. You would catch up with the situation the next day.

However, when it involves savings and important capital expenditures to provide better tools and inventories with which to work and conduct business, then an inflation has an entirely different effect.

Senator FLANDERS. Mr. Wilson, I think you have sold me on the evils of inflation. That is all I have.

The CHAIRMAN. Mr. Rich, do you have any questions?

Mr. RICH. Yes; I thank you.

Mr. Wilson, how can we convince the people of this country the more we produce the cheaper will be the prices of the commodities which we produce?

Mr. WILSON. Well, anyone that is willing to look at the facts doesn't have too much trouble being convinced of that. That has been the history of our Nation actually. That is what has happened.

I know it is a little difficult in some ways. I have had labor men tell me that they would agree that the average man in the plant would like to work more than 40 hours a week, especially when taxes are so high, and have more. But in many cases they aren't convinced that they would have more.

You have asked a very good question. They think they would just have to work longer for the same thing they are getting now. That, of course, isn't true. The rapid shortening of the workweek, in my opinion, was one of the reasons why it took us so long to come out of the depression of the early thirties.

Mr. RICH. Why is it there are so many people in this country that think they ought to get everything they want from the Federal Government without doing anything to get it?

Mr. WILSON. Considerable potent propaganda from very high sources was released on the Nation with a new device to do it, which was radio.

Mr. RICH. How can we stop that propaganda by people in government and high places?

Mr. WILSON. I think the truth is powerful and will ultimately prevail. I think we will just have to have patience. As a matter of fact, I feel quite encouraged.

Mr. RICH. Do you think that will work out in time?

Mr. WILSON. Yes, sir. I often remember a comment General Marshall made down here during the war in talking to a group of us who were worried about how we could do a better job in supplying the Army, the Navy, and the Air Corps with what they wanted and the troublesome problems and the friction we had to contend with.

He said that some relatively little things were bothering him and had bothered him until he realized that the right to have those things exist was what we were fighting for.

So I stick to the fundamental: Let's have the free speech and difference of opinion and try to bring the facts out on top of the table, and then I think the majority of Americans are going to see the thing right, and we will get through it all right.

I don't know any place in the world where they are doing as well as we are right here.

Mr. RICH. Then you believe everything is going to work out all right here, and the Voice of America would be a good thing for the world?

Mr. WILSON. That is right. The example of America should be helpful to the rest of the world. Of course, sometimes I feel like I am getting old a little fast and maybe it won't quite all come around fast enough in my time, but still I think it is the right thing.

Mr. RICH. You believe that the great national debt that we have hanging over us is something that is a very serious problem and that the Federal authorities, both in the legislative and executive branch, should give every attention to try to reduce that as far as possible for our own safety?

Mr. WILSON. My business is the automobile business, so I am not really an expert in that matter. However, certainly it is wrong to increase it. It would be a good thing to gradually reduce it because we actually made a commitment to the people who bought the bonds that they had value and that they could be converted into goods and services that people want to live on some time, so some reduction, I think, would be sound.

I think an effort to reduce the debt too rapidly would be difficult—troublesome too.

Mr. RICH. The reason I asked the question was because of the fact that you have spoken about reducing that 7-percent tax on automobiles, and I feel that we should tax the people now just as much as we can consistent with good sound business principles in order to reduce that debt.

Mr. WILSON. Of course, I go along with Mr. Baruch. It would have been a very sound thing for the country following the war instead of immediately trying to force a 40-hour week back on the Nation, to compromise and gradually work back from the 48 hours of the war to the 40 hours of immediately prewar, and as long as taxes were high we would make some effort to reduce the debt—that if we had all worked a little harder and a little longer, we would have made real progress in reducing the debt and would have caught up the shortages more quickly. The real purchasing power of workmen would have been much greater.

You can increase real purchasing power only through productivity, and productivity is a question of the tools you work with, the hours you work, and the application to the job.

Mr. RICH. Haven't you found out in your experience that too long hours is not good for increased production, that if you work a moderate number of hours, we will say 44 hours, rather than 50 hours, that you will get more out of the workers in 44 hours in the long run than you will if he works 50 or 55 hours?

Mr. WILSON. I don't think that is my experience. I have worked 80 hours a week myself when I was a young man in the shop. That was a little too much, and I broke my insteps down that summer and had a problem for a couple of years. I was on my feet too much and working in a transformer test where there was a lot of oil, and my shoes got so greasy they became like Indian moccasins. That was a little tough, but there is quite a margin between 40 hours and what a man can do before it is too much physical effort. You know, actually this is about the only country in the world where you have very much of a choice. Most of the people in other countries are right on the margin between working long hours and getting enough to eat within the limits of their physical endurance to work. In many places it is right there—there is a close balance on whether they work themselves to death or don't eat. It is marvelous that we do not have to make that choice in this country.

Mr. RICH. I think that is one of our great liberties that we have.

Mr. WILSON. But our free competitive system is what did that, I don't think we want to forget that.

Mr. RICH. The privileges and rights that our workers and the employers have make a great incentive for us to produce.

Mr. WILSON. I tried to say it in a few words by saying in this country we have stimulated the initiative of the millions and not the dictatorship of the few, and that is what has made the progress of our Nation possible; that and our political system.

The CHAIRMAN. Senator Myers, do you have any questions?

Senator MYERS. Yes, thank you.

Mr. Wilson, I think you have given us a very interesting and illuminating and challenging statement. I only wish that we could have had the benefit of your statement and your testimony months ago.

In the preliminary report filed with the Congress by this committee, we see on page 2 that the basic problem which the committee has to consider is the method of preventing depression so that substantially full employment may be continuously maintained. I take it from your testimony that we have done rather well, Mr. Wilson, referring to that objective.

Mr. WILSON. You mean in our country here currently?

Senator MYERS. Yes.

Mr. WILSON. I think that is a fair statement, considering the terrible world war that we were in and the difficulties of getting back out of it. As I remember World War I, I think I can honestly say it looks to me like a better job was done this time than was done that time.

Of course, we should learn by experience. I think it is one of the characteristics of Americans that they are never quite satisfied with what is going on, and they have some idea about how to do better. I think we could have done a better job than we did, but judging by any precedent of the past, I don't think it is too bad. We are doing better than other countries, as near as I can tell.

Senator MYERS. We have now what you might call full employment in this country; do we not?

Mr. WILSON. Yes, sir.

Senator MYERS. And we are enjoying the highest national income ever enjoyed in peacetime before.

Mr. WILSON. Yes; that is true. Our statisticians and economists have recently made a study of it, and they reassure me that there are more Americans who can buy our cars at present prices than could buy them prewar at the then prices.

Senator MYERS. And so it is the purpose of this committee to assist in maintaining this high level of employment and maintain this high level of income.

Mr. WILSON. Yes, sir.

Senator MYERS. There are some inequities, some inequities in our economic structure, and if they can be corrected, so much the better.

I notice at the bottom of page 8 of your statement that you say:

why it is so necessary to have a favorable attitude toward business on the part of Government and why the confidence of the buying public must be maintained by having them feel that they are getting value received for the current dollars they are spending.

Do you, Mr. Wilson, think the public feels they are getting the value for those dollars they are currently spending.

Mr. WILSON. I don't think they were worrying too much about it until 2 or 3 months ago when there was a lot of propaganda from down here that upset their ideas. You have to be careful about that.

Senator MYERS. Do you think the general public in Washington and Philadelphia and New York are satisfied with the high prices they are now paying for meat?

Mr. WILSON. Maybe not, but they are eating more meat per capita in this country than we have ever done in the history of the Nation and many times what other people have to get along with.

Senator MYERS. Of course we are. I think too that during the war our people ate better than they ever ate before. But that is not the question and not the problem before us now. Is it Government propaganda that caused that tremendous increase in the price of meats in the last few days? There may be valid reasons for the increased prices, Mr. Wilson, but I only asked that in view of your statement that the confidence of the buying public must be maintained.

Mr. WLSON. I don't think they are. There is a tendency on the part of the people and that is one of the reasons why inflation is so bad—to look on dollars as being stabilized units, and they rather think they ought to get the same return for a dollar that they have in the past, so that that tends to make people dissatisfied during inflation.

The CHAIRMAN. Hasn't the price of food itself gone up more than others?

Senator MYERS. I think it has. This committee in its report of last February indicated it was dissatisfied with the current prices because the committee unanimously joined with the President's recommendation for reduced prices. I don't believe business can reduce prices in all cases, but I am sure we are all interested in reducing prices wherever possible.

Mr. WILSON. That is right. I would like to talk about the prices of food particularly a little more, since we have it on the table.

I think the problem was pretty poorly handled if you men don't mind my saying so. I don't know your relative responsibility for it individually may have been—but when the OPA was allowed to expire after people had had their food rationed for 4 years, naturally, they started to buy, and the prices went up somewhat. Hogs and cattle went up to some 20 cents a pound where the Government had been holding them to 15 or 16 cents.

Then, when the position down here was reversed and the control was put back on, the farmers said to themselves, "Well, that is not a fair price and I won't send any more hogs and cattle to the market." So we ran the people out of meat for some weeks. I know about the only thing you could buy in Birmingham—that is a suburb of Detroit where I live and where we do our marketing—we went to the meat store and all they had was pigtails.

Then, when that obviously wasn't going to work and they had to kick OPA overboard, the people hadn't had meat to eat for a while and they rushed into the stores, and the price went up again.

I don't think that was too well handled, if you don't mind my saying so.

Senator MYERS. I might interject there that meat was undoubtedly withheld from the market, for one of the greatest miracles that ever occurred was the way the meat poured into the market after the death of OPA. It was rather difficult to drive your car on the road due to the fact that there were so many trucks on the road carrying meat.

Mr. WILSON. That is a matter of meeting the law of supply and demand. Just have a litle patience, and it will work out. You have one left, rent control.

Senator MYERS. I was going to come to that in a moment. On page 2 of your statement you indicate that throughout the country thousands of automobile dealers are selling cars for less than the public thinks they are worth and is currently willing to pay for them. I wonder if you would give us a little more enlightenment in that regard and a little more evidence and information on that statement.

Mr. WILSON. I don't know whether you have noticed it yourself, or not, but the papers are full of it, criticizing the industry and the dealers for the fact that on used-car lots there are what are represented as brand-new models for sale at premium prices anywhere from a few hundred to a thousand or $1,500. There are some places in the country where you can buy a new Cadillac from a dealer, if you are on the list and he has delivered it to you, and you can take it right around the block to someone else's used-car lot and get $1,000 more for it than you paid.

Now, a good many other things have been marked up to what the public is currently willing to pay. That applies to the price of meat. That is what the people are currently willing to pay for meat in the quantities that they like to eat it.

Senator MYERS. That is true.

Mr. WILSON. That is what happened in the housing business, too. Houses are relatively more expensive than automobiles, considerably.

Senator MYERS. It is my understanding that the automobile industry is only making a normal profit. I am not raising that question. You folks are just making a normal profit in the industry, but when you say that people are paying for automobiles less than they think they are worth, I doubt if that is so. I think it is a question of demand, and they are paying whatever the sales price may be. They need an automobile. If a man needs an automobile in his business, he doesn't consider price. In prewar days, cash customers were welcomed by automobile dealers but today they almost usher him out because they prefer customers with trade-ins.

We know that the dealers and distributors are making huge profits on the used cars, and I am wondering if the industry can do anything about that or is attempting to do anything about it. I know it is difficult and I don't know how you could police it, but I think you should try to drive the prices down somewhat. That is the total price the dealer is receiving.

Mr. WILSON. Actually we are probably doing the outstanding job in the Nation of trying to keep the prices down to the public. The automobile industry sells automobiles to the dealers, and legally and technically the dealers have the right to resell them for any price they want. I am sure, though, that the great majority of automobile dealers—I really mean the majority; I don't mean a close two-thirds vote, I mean about 98 percent—are doing a good job in maintaining recommended list prices. I don't know anything else, with the possible exception of farm machinery, where anything like an equivalent job is being done for the people.

Senator MYERS. Mr. Wilson, is the industry itself endeavoring to police its distributors and dealers to see to it that they are not demanding and receiving excessive prices?

Mr. WILSON. That is right.

Senator MYERS. Is the industry doing that? The steel industry is following every sale of steel to see that it isn't diverted.

Mr. WILSON. They got into some trouble through directives. They get directives to ship 500 tons of steel to somebody and then find that it got into the black market.

Senator MYERS. I think the steel industry is doing a magnificent job in the following its steel and I am asking if the automobile industry is doing the same thing.

Mr. WILSON. We have sent men around to these used-car lots and got car numbers and followed them back to see where the cars really came from. Just as I said, it is a normal kind of thing for a man to be tempted to make an easy profit when he has been sold a $10 bill for $8, and the cars are so flexible and mobile that he can drive just around the block and collect a substantial profit. However, we will come out of it all right if we can have the production. If we can get a couple of years production this thing will get back where the market and prices and everything else will stabilize.

Senator MYERS. That is undoubtedly so, but my great worry is that 2-year period. If we get back to production, everything will be splendid. It is that 2-year period that worries folks. I am encouraged to hear you say the industry is actually following the automobiles and doing everything possible to prevent black marketing or gray marketing in used cars and new cars. That is encouraging to the committee.

In this same report, Mr. Wilson, the committee had this to say:

> The short range recommendations of the President calling for congressional action may be summarized as follows:

They give six short-range recommendations, all of which at the time we filed our report were being considered by various committees of the Congress and were highly controversial.

You mention rent control. The first of those short range recommendations of the President to stabilize our economy was rent control. Do you have any thought at all with regard to that subject?

Mr. WILSON. I don't think that I can say that I have read the proposed legislation carefully, but my understanding of it is that it is a sort of scheme to work out of the thing.

Senator MYERS. It extends rent control until February 28. Are you in accord with that?

Mr. WILSON. Not just specifically that. The other provision that tenants could make a deal with the landlord to extend the period of rent over for the rest of the year on a 15-percent markup, I think provides a reasonable chance to start to work out from under the thing.

I think that when you suddenly take off any of those controls that have been on a long time you have a problem. I think it is important that rent controls be liquidated as soon as you reasonably can.

Senator MYERS. I think everybody is in accord with that; but do you think we can reasonably liquidate them now?

Mr. WILSON. I think if I had the job to do, I would do something about like the proposed legislation. I wouldn't just continue the controls as they were with no relief. I think that is one of the troubles with the new housing bills.

Senator MYERS. I am coming to housing, too. Mr. Wilson, under this bill rent control will go off in the middle of the winter, the first of March. If there is still a scarcity of housing, would you be in favor of extending rent controls beyond that period?

Mr. WILSON. I don't think so.

Senator MYERS. Regardless of the situation?

Mr. WILSON. That is right.

Senator MYERS. So even if next winter we find a serious shortage in housing, you still believe that controls should go off regardless of that shortage?

Mr. WILSON. Yes, sir.

Senator MYERS. Do you have any particular reason for making such a statement?

Mr. WILSON. Well, I don't know what I would do if I were in England where they had a million homes destroyed, but we were fortunate in our country, where we didn't have homes destroyed. We have built quite a few. There is a natural desire on the part of millions for a better place to live. That is commendable, but any artificial subsidizing of the problem is going to build up future trouble.

Senator MYERS. This isn't subsidizing. I merely asked, if the shortage of homes continues, should we continue rent control?

Mr. WILSON. It is subsidizing in that you are asking landlords to subsidize lower rent when the wages and salaries and earnings of people generally are importantly up, when farmers are getting two or three times the prices they used to get for wheat and hogs and cattle. You are picking on a certain segment of the public. I know landlords are not very popular, but they still oughtn't to be picked on.

You are also creating a problem of having people perhaps currently living in bigger houses than they ordinarily could afford in a competitive society. There is not much tendency now for anybody to take in a boarder to help a bit, and I think the sooner you get the artificial things out of the country the better off we will all be. I know you have to take each one on its own and study it a while. That is my philosophy, and I think it is sound Americanism.

Senator MYERS. As far as the first recommendation is concerned, the extension of rent control, regardless of the circumstances, you believe that that is another control that should be removed?

Mr. WILSON. The circumstances can't be too much different from what they are now, and the rent control on or off won't make immediately one more house available.

Senator MYERS. But it will mean a lot of heartbreaks and a lot of heartaches when many people next winter are put out of their homes.

Mr. WILSON. Why?

Senator MYERS. I think that question answers itself.

No. 2, Congress should extend the coverage and raise the rate of the minimum wage. Do you think we should raise the minimum wage above 40 cents?

Mr. WILSON. Well, I suppose that it would be consistent to raise the minimum wage, granted that minimum-wage legislation was sound at any time, to raise it in somewhat the same proportion that other wages have been raised.

Senator MYERS. I asked that, Mr. Wilson, because there is legislation before the Congress which is sponsored by representatives of both parties, to increase the minimum wage from 40 to 65 cents. Some say it should be stepped up year by year above that. However, on the fundamental principle that the minimum wage of 40 cents is too low——

Mr. WILSON. It is not a problem in the automobile industry.

Senator MYERS. And it is no problem in much of the industrial northeast. I think most wage earners are getting a wage in excess of 40 cents an hour, but I just wanted your thought on that. When you mentioned housing, Mr. Wilson, in this report of the committee commenting on the short-range recommendations of the President, there was set forth that Congress should enact a long-range comprehensive housing program. I wondered if you have any comments on that.

Mr. WILSON. I think they ought to get out of that business and let the individual citizens handle it.

Senator MYERS. Do you think we should get out of FHA and FDIC? FHA, particularly, has much to do with housing.

Mr. WILSON. You threw too many letters of the alphabet at me.

Senator MYERS. You know what FHA is. That is the Federal Housing Authority. I wonder if you think that should be eliminated.

Mr. WILSON. I can tell you about a little experience of General Motors in Flint after World War I. Exactly the same thing existed after World War I as exists now, with an inflation of wages and an effort to catch up on the demand, while the war was very much shorter and inflation relatively was worse. We had a big demand in Flint for houses, and General Motors started to build houses to sell to the employees—some 8,000 of them.

A number of years later I had the job of trying to liquidate the thing and wind it up, so I looked up the history. The history was that in 13 years we had lost $13,000,000 and collected some ill will from our employees. I think the Government, if they mess around with the housing business, is going to get the same result out of it.

Better let the people work out how they themselves are going to get better houses, if that is what they want to spend their money for. If you subsidize the business you will ultimately wind up by having it cost a great deal of money that somebody else will have to pay, and you are going to get ill will out of the owners because landlords are not popular. I don't like to see our Government in the landlord business directly or indirectly.

Senator MYERS. With the sixth recommendation I am sure you are in accord and you believe the Congress did a fine job on the sixth recommendation, which is that the Congress should deal with the whole field of labor relations in which sound collective bargaining is essential.

The CHAIRMAN. That is the President's recommendation.

Senator MYERS. Yes; but I am sure Mr. Wilson is in accord with that recommendation, although not with the President's specific views.

Mr. WILSON. Yes, sir; I was down here a year and a half ago at a labor-management conference in an effort to do everything I could to help establish a sound philosophy and detail and procedure that would make collective bargaining work. I did my best at it, but I had a strike pulled on me in Detroit while I was down here trying to do it, so I had to go back home. The effort, of course, was blown right out of the water. I hope the same thing isn't going to happen here shortly.

Senator MYERS. Mr. Wilson, I was deeply interested in your reference to one of the causes of high prices; namely, the financing of the war. I understood you to say we should have paid for the war as we went along.

Mr. WILSON. I said if it had been politically expedient to do so we could have paid for the war as we went along because we produced currently the things needed by the war and we lived on what was left over afterward. So just looking at the thing as a physical production of goods and services and consumption, it could have been done. I don't know whether the war could have been sold to the American people if it had been handled in that way at the beginning of it.

Senator MYERS. What do you mean when you say, "whether the war could have been sold to the American people"?

Mr. WILSON. For instance, the way it would have had to be done was to tell the workmen in the plants that instead of working 40 hours they will have to work 48 hours for the same amount of money. I don't know whether they would have done it or not.

Senator MYERS. Since we didn't pay for the war as we went along and we have this huge debt, do you have any comment as to the President's fifth recommendation, whether the tax burden should be reduced at this time, or do you believe we should first start a reduction in the national debt?

Mr. WILSON. Frankly, I am about like the average taxpayer. I have the feeling that until we reduce the taxes the Government bureaus and the Government are not going to overhaul their budgets and reduce expenditures until they are forced to do so by not having so much easy money raised from the taxpayers.

If I thought that importantly the tax money was going to be used for debt reduction, I would take it a little better than I currently do. I think that is the way most of the citizens feel about it.

Senator MYERS. Let me put it this way: I think the Congress this year is reducing the expenditures of the Government. Certainly they are scrutinizing every item and reducing the appropriations for every department under the budget estimate. Do you think that the amount saved between the amount recommended by the President and the amount actually appropriated—do you think that should be used to reduce the Government debt or reduce taxes?

Mr. WILSON. I think the decision has been made.

Senator MYERS. Of course, it has been made. I am wondering what you think of these recommendations.

Mr. WILSON. I am not an old man, but I remember when the Federal budget first reached a billion dollars, and $37,500,000,000 sounds like too much to me.

Mr. RICH. The right thing to do is cut down Government expenses before we cut down a lot of other things.

Senator MYERS. I understood you to say, too, Mr. Wilson, that the productivity of labor since 1939, I think, in your plant, is within a few percent of the productivity of 1939.

Mr. WILSON. That is right.

Senator MYERS. And, of course, I am in wholehearted and full accord with your statement that productivity is going to lead us out of our difficulty, if it is a difficulty, and insure high national income and full employment.

Do you think that is an encouraging sign, Mr. Wilson? I understand that productivity has been increasing the last 6 months; that it reached a low ebb last year.

Mr. WILSON. It is very encouraging now.

Senator MYERS. You are hopeful that that productivity will not only continue at that rate, but will increase beyond that rate?

Mr. WILSON. We think most of the workmen in our General Motors plants are pretty fine Americans. A few of them have the wrong idea—the idea of how little work they can do and get by.

The CHAIRMAN. That is not unique with workmen in General Motors plants.

Mr. WILSON. No; it is a very old scheme.

Senator MYERS. But, at least, you believe that at the present time productivity is increasing, and this is a very healthy sign.

Mr. WILSON. Yes.

Senator MYERS. You mentioned that your hourly wage rate had increased to 80 percent since 1939, as an approximate figure.

Mr. WILSON. I have here the average in the United States of all manufacturing hourly rates. Our wages are currently about on that same pattern.

Senator MYERS. About 80 percent?

Mr. WILSON. Slightly less than that, I think, because our rates were already high; and when you talk about percentages, for a number of years now the increases have been put at so many cents an hour for everybody. So the percentage increase in high-paid industries is less than it is in low-paid industries.

Senator MYERS. I am concerned not only with the hourly wage rates, but also the take-home pay. You mentioned earlier that when you cut back from 48 to 40 hours, the take-home pay was reduced considerably.

I wonder if you have any figures between the actual take-home pay of 1946 or 1947 and 1939?

Mr. WILSON. I would guess that that is at the level of 80 percent. The take-home pay is all right on that basis. As a matter of fact, as some of you know, and as Senator Taft pointed out here a while ago, we reached an agreement with the unions in our plant in April to settle our wages for a year and all the economic issues for an increase of approximately 15 cents an hour.

Perhaps I was a little surprised that we did it so quickly and so easily—that is, coming to an agreement. Actually, it seemed to me the fair thing to do because food prices had gone up so much. My analysis of the figures was that if we insisted that our workmen should work at the rates that were then in effect, let us say, last March and early

April, considering the present prices of food, it meant that we would be asking them to take a lower standard of living than they had had for a number of years. I didn't see any reason why they should.

So while ordinarily the economy of the whole country gains more by a reduction in prices than it does by raising the specific wages of the relatively few people, in this particular case I thought our workmen should have the wage increase rather than the customer have the price reduction.

The CHAIRMAN. I might say according to the figures furnished the committee the average gross weekly earnings have increased 100 percent—that is, take-home pay—since August 1, 1939.

Senator MYERS. That is what I was interested in—hourly wage rates—and I wondered if the increase in hourly wage rates compared favorably with take-home pay.

Mr. WILSON. I think our people are getting along fairly well, everything considered, and I think the only thing they fear is——

Senator MYERS. Strikes that will close up plants? I think our people fear unemployment, Mr. Wilson. I am in accord with that. If we can maintain the same high rate of total income and maintain the same high level of employment, we will enjoy a period of prosperity for some years to come. I hope so. I congratulate you again because I think you have been very helpful.

Mr. WILSON. Thank you.

The CHAIRMAN. Do you have anything, Senator Watkins?

Senator WATKINS. No; I have nothing.

Senator O'MAHONEY. I am sorry I wasn't here for your entire presentation. Mr. Wilson.

Mr. WILSON. I quoted one of your statements.

Senator O'MAHONEY. I am pleased that you were able to do so.

Mr. WILSON. It amply says what I wanted to say.

Senator O'MAHONEY. The question before the committee is the relationship of price to production. Have you discussed that?

Mr. WILSON. Well, we have in various ways. If you would like to ask me any questions about it, I will try to answer them.

Senator O'MAHONEY. I remember a conversation we had a few days ago when you spoke about the easy market for new General Motors cars.

Mr. WILSON. That is right.

Senator O'MAHONEY. Since the General Motors Corp. recognizes the fact that cars can be sold for much more than the list price, that means that the motor industry as a whole has a definite policy of holding automobile prices down; does it not?

Mr. WILSON. That is right. We are doing the best we can. We have in the industry what we call recommended delivery prices that we ask our dealers to adhere to. Actually, they are free businessmen. We sell them the cars, and they pay for them, and they have the right to resell those cars as they see fit. But they are actually following our advice, I am sure, very importantly. With the possible exception of farm equipment, a better job is being done by the automobile industry than by any other group in trying to keep the prices down.

Senator O'MAHONEY. That is the point I want to emphasize. You have told us that the automobile industry is not charging all the traffic will bear. You could get much higher prices.

Mr. WILSON. That is right.

Senator O'MAHONEY. Is there any reason why other industries couldn't follow the same policy that you do of keeping prices down, and if that policy were followed by the producers of raw materials and of manufactured goods, would that not tend to halt any threat of an inflationary spiral?

You have just told us that the motor industry is doing a better job of holding down prices than any other industry. Let's accept that as a fact. In view of the experience of the automobile industry, why can't other industries imitate the automobile industry and hold prices down?

Mr. WILSON. I myself am not sufficiently familiar with the facts in some other industries to say to what degree they are or are not charging any excess profits. I don't know their whole histories of the past and the changing conditions.

I know that most farmers feel that there was a period of years before the war where they didn't get fair prices for their products and they couldn't afford to repaint their houses and barns and get the better equipment they needed to do a better job on their farms, and I think they feel they are entitled to some extra profit now to make up for the past.

Senator O'MAHONEY. Let's talk about the industries which furnish the raw materials for use in the manufacture of the various General Motors products. How are those prices?

Mr. WILSON. I don't feel that the manufacturing industries are doing a bad job. I think, generally speaking, the bigger profits currently are being made in the merchandising and retailing and distribution end of the business. That is partly because the demand for goods is so great that the ordinary selling expenses are reduced; customers come in and buy easily, and the volume is high, and where they had no reconversion problems and no difficulties of importance, they are doing quite well.

Senator O'MAHONEY. Then does that mean that you believe that the retail industry is charging too great a mark-up?

Mr. WILSON. I think as the supply and demand comes into balance on the various kinds of things, they will get back to the normal pre-war profit ratios on the average; that is, about enough to maintain the system. That is why I don't like the compilation of figures in total because to do a fair job of interpreting such figures you have to look at each figure.

Senator O'MAHONEY. When the Newburyport plan was started and the retail merchants in that particular community sought to mark prices down, the story was that the effort failed because the merchants were unable to replenish their shelves with new stocks from the manufacturers at lower prices.

Mr. WILSON. That is right, and the producers of goods basically are having a fairly tough time to maintain those prices and not increase them. They couldn't reduce many prices.

Senator O'MAHONEY. My point is that if General Motors can keep the price of its product below what the market will bear, does General Motors in turn receive a satisfactory price from the producers of the raw materials it uses to make the automobiles and the other products? You have to buy glass, you have to buy leather, you have to buy woolen fabrics, you have to buy aluminum and sheet steel, and I don't know how many other products which must be purchased by every automobile manufacturer to make his product.

Now, if you can hold prices down can you reasonably assume that you are getting your raw materials at a price which enables you to keep down your prices without incurring a loss?

Mr. WILSON. Well, I think that whole question is what happens to our material prices and costs. We are making a great effort to increase productivity; better tools and methods and organization of the business to overcome the other elements of increased cost and how successful we will be in it we can hardly tell. We haven't had a sufficient period of time to be real sure that we are going to make the grade on it, but we will try.

The CHAIRMAN. In the case of food you have a free market. In a commodity like wheat it is in no way analogous to a manufacturing price as far as holding down the prices. Can anybody hold down the price of wheat?

Mr. WILSON. The Canadians do it.

The CHAIRMAN. You can fix prices, but assuming a free economy, how do you keep a free market from going up or down?

Mr. WILSON. I am not too much worried by the free market. I think it has within it the power to correct its difficulties and mistakes and if we have a little patience, it will come out all right.

The CHAIRMAN. The problem of high prices, as far as I can see, seems to be centered in the price of food, as far as the consumer is concerned.

Mr. WILSON. Yes; that is the thing they are most conscious of.

The CHAIRMAN. It is what we can do about it; that is the problem.

Mr. WILSON. Well, if you could have had a little better weather this spring, it would have been a good thing.

The CHAIRMAN. I think we have the largest wheat crop the country has ever seen.

Mr. WILSON. The wheat is all right, but oats and corn are not so hot.

The CHAIRMAN. Mr. Huber, do you have any questions?

Mr. HUBER. Yes; thank you.

Do you feel relations between management and labor will improve in the future?

Mr. WILSON. Well, I think there is a temporary flurry here to get through. I think fundamentally they are improving, as the problems are better understood and perhaps some more responsibility develops in the leadership of the various unions.

Mr. HUBER. You mentioned the party-line followers. Do you have many union representatives that negotiate with your several factories that follow the so-called party line?

Mr. WILSON. Not as many as we did. After the sit-down strikes, of the four union members who negotiated with us for the contract, two were acknowledged Communists. One of them had run for mayor of Cleveland on the Communist ticket. Those two men advocated the same pay for everybody, independent of what they did.

Of the other two members of the committee one had been a welder and the other one a Baptist minister, and they weren't so sure that was the right thing to do, and we knew it wasn't; so after a good many days of discussion of the matter, we worked out what I think is a pretty sound labor agreement.

Mr. HUBER. You stated generally, Mr. Wilson, that you were in favor of removal of all controls. Do you not feel that retention of price controls on automobiles might have eliminated these inflationary prices with which we are confronted today?

Mr. WILSON. There is no way that I know of to regulate prices in a period of shortage and high demand without rationing. I don't know of any way to do it. If you say that dollars aren't reasonably going to determine who gets the product, I don't know how to do it. I think if we had continued price control on automobiles, we would have had a real black market in cars instead of perhaps what some people might call a gray market where individuals resell their cars. We would have had some real trouble in rationing automobiles to consumers.

Mr. HUBER. If thousands of dealers wired and said the elimination of price controls would reduce prices, they were all wrong?

Mr. WILSON. Well, maybe they didn't set the time it would take. We have to have some patience on this. It was a terrible war, and we can't immediately after such a catastrophe reestablish everything in the normal position.

Senator O'MAHONEY. Did you discuss the factors holding up the production schedules of General Motors?

Mr. WILSON. I mentioned the fact that the biggest shortage is in cold-rolled steel. Of course, the industry lost a good bit of production last year through the coal strikes and the strike in steel. In addition, the continuous mills had proven to be the best way to make good cold-rolled sheets, as compared to the old hand mills. It saved a lot of really tough labor in the steel mills and did an equally good or better job for less money. It substituted iron and steel for the backs of the workmen that used to have to lift the steel from roll to roll.

What happened was that when the war came on, there were some hand mills still in production. The steel people mostly converted them into something else, dismantled them and converted them into something else. The big steel companies practically all had plans to build additional continuous mills when the war was over.

The strikes, particularly in the electrical industry, held up those mills. Three companies make that equipment: Allis Chalmers, General Electric, and Westinghouse. Allis Chalmers strike lasted for more than a year, and the others were pretty long. These strikes put these new mills back until they aren't in production yet. No new mills built since the war are in production. The first of them, I understand, are going to come into production late this fall, and the other companies, one after the other as they get equipment, will complete their mills in the first and second quarters of next year.

Copper for a while was very short, but it seems to be a little better now. We have to import some copper into this country currently to take care of our requirements.

Lead also is a tough item.

Senator O'MAHONEY. Let's consider the price of steel. Is the fact that those rolled plates are in short supply reflected in the price?

Mr. WILSON. Well, after the adjustment of price a year ago last February, I guess it was, the basic prices of steel haven't been changed very much. All the extras, the little kinds of things, maybe they used to just throw in, they have a tendency to charge for now. Extra wide sheet or something like that. I don't blame them for it because they are running at a very high level of capacity, and if they can't make some money now, I don't know when they can make any.

Senator O'MAHONEY. Do I understand you to say that the steel industry has advanced prices?

Mr. WILSON. They made a substantial advance in prices when the wage pattern of a year and a half ago went into effect.

The CHAIRMAN. We were told last night by Mr. Hook, president of the American Rolling Mills Co., that sheet had gone up 25 percent since before the war as compared with 80 percent for automobiles.

Mr. WILSON. The reason is these continuous mills. They found out how to make a great big step technologically at one time. That is why the sheet prices are relatively favorable. I think if you look over their price structure, you will find on some of the other items where they didn't have this opportunity to increase production with the same effort, that they had to adjust their prices more.

Senator O'MAHONEY. You tell us that the motor industry is not charging what the traffic will bear. Is the steel industry doing the same?

Mr. WILSON. I don't think they are either generally. There are a few places where they more or less, perhaps, have done it.

Senator O'MAHONEY. Does that mean in these two industries we have administered prices and not the price set by the free market?

Mr. WILSON. No; I don't think quite. I think the men who run the big steel companies feel just like the automobile people do, that they oughtn't to raise their prices beyond what their past procedures have shown them to be a reasonable pricing policy, and they are going to try to stick to that if they can.

The CHAIRMAN. Doesn't the thing come down to this: That where you have got a dozen men who do all the production, an economic appeal to them has some effect; but where you have an industry divided into several thousand units, there is practically no way for them, even if a few restrain themselves, they are soon carried along with the general tide of the action of the tremendous crowd. Isn't that the real difference in this present trend of prices?

Mr. WILSON. Yes.

Senator O'MAHONEY. How about copper?

Mr. WILSON. Copper?

Senator O'MAHONEY. Yes, do you consider the price of copper high in relation to your needs and the general shortage of that material?

Mr. WILSON. Well, I haven't any great criticism of the copper people. I think they have a tough time in South America, and they don't have very stable governments in some of the countries where they are trying to operate.

Senator O'MAHONEY. My question was not directed to elicit criticism, but rather to get at the facts.

Mr. WILSON. I think we have to pay appreciably the world price for copper as long as we have to import a big amount of it. I suppose it is not out of line with other things right now. I hope they can bring it down some day.

Senator O'MAHONEY. Are any of the prices of raw materials used in manufacturing the products which General Motors puts on the market too high in your opinion?

Mr. WILSON. I can't think of any important one now where I think it is enough out of line that I am critical about it. I think, generally speaking, that American businessmen are doing a pretty fair job trying to work out of this trying situation.

Senator O'MAHONEY. If a great manufacturing enterprise like General Motors can get its raw materials at prices which enable the company to sell its product at much less than the traffic will bear, what is the reason that people in communities all over the United States find it impossible to obtain the raw materials which are necessary to enable them to build houses at a price which they can afford?

Mr. WILSON. Well, I think the difficulty there is that the housing business hasn't been organized on any mass-production basis, and some of these technological improvements, like, for instance, these continuous mills in the steel industry, haven't functioned in the housing industry to keep the prices down and still pay very high wages.

Also, the building trades, perhaps, with a long history going back to the guilds in Europe years ago, have had somewhat the theory of restriction of production and effort, the number of apprentices they take in and educate in the trade, and so forth; so that I think most people think they are taking a pretty high toll as against other workmen. Also the very nature of the work, of the business, means that it never has been—I won't say it can't be—organized quite as well to deliver the result to the people.

The CHAIRMAN. Materials have gone up very greatly.

Mr. WILSON. I think that, perhaps, is going to correct itself, because when people aren't willing to pay the prices for the houses, then prices will come down. Lots of construction has been done on a cost-plus basis, so that it all goes the wrong way.

One of the men told me the other day that lumber had come down about 5 percent. That is a big item.

Senator O'MAHONEY. However, if the raw materials necessary to the motor industry are obtainable at a satisfactory price, why are they not available to the building industry at a price level which will permit the construction of badly needed housing?

Now, that question is not to be illuminated by any comment upon the difficulties of construction, building codes, and the like. These things are bound up with the problem of wages and the apprentice system, and all the rest. My question is concerned solely with the cost of raw materials.

Mr. WILSON. As I said a while ago, I have paid more attention to copper and steel than I have to any others. I know that lumber for boxes has become quite an item, particularly with our export business. Shipping seems to be demoralized every 3 months some way or another; so that we are having plenty of trouble maintaining a flow of parts to our assembly plants abroad. While it isn't a very big percentage of the current production here, it is a problem because of those items. That is, the boxing and preparation for shipment is highly expensive and the cost of shipping and transportation is both irregular and expensive.

Senator O'MAHONEY. Do you agree that if we had a more satisfactory level of prices for building materials the production of houses would as a result increase and would help to bring about the condition which you and I agree upon as desirable, namely, increased production all the way down the line?

Mr. WILSON. In regard to the lumber business, you know during the war we finally said we had to conserve our steel so much for military weapons that we even built plants and put lumber in beams and construction. That was a practice of 50 years ago and not the way we have been doing more recently. We pretty well used up all the available lumber in the country that was at all seasoned and in shape to use; so that with the added demand for it after the war, we put an awful pressure on the lumber industry.

We did stimulate the production of lumber, I am sure, by the prices. People were willing to sell their trees on the stump and thought, "Well, here is a good price and I will get them cut."

I think that one is gradually coming into balance with supply and demand, and perhaps we can hope for the price to drop some.

Senator O'MAHONEY. What advantage does a big outfit like General Motors have with respect to prices over an individual purchaser or small buyer?

Mr. WILSON. I am not conscious that we have any advantage at all. As a matter of fact, perhaps it is just the other way. For example, when the automobile business was curtailed in the summer of 1941 in the interest of the defense program, the large producers were given an allotment of 50 percent of their previous production, and the smaller companies were allowed to continue to produce at 85 percent of their 1940 rates. As a result, the steel we used in General Motors, let us say, for the first 6 months of 1941, was at the rate of 100 percent of our requirements, and the last half was on a 50 percent rate. That would give us an average of 75 percent for the year.

The steel companies have a tendency to look at past records and customers' consumption and allot steel somewhat on the history of the past, so that in General Motors we haven't been able to get enough steel to reestablish our average prewar percentage of the business.

So that instead of having any favorable position, I think it is perhaps just the opposite.

There is also another thing which happens. With the demand for the material from hundreds of places, it is easier to take a thousand tons of steel that might be on order by Chevrolet and get 100 customers off your neck and off the telephone and only have one that still squawks. We don't think we are getting along too well.

Senator O'MAHONEY. It is getting a little late, Mr. Wilson, and I will abandon these questions. They are very interesting and I am very much obliged to you for your answers.

The CHAIRMAN. We thank you very much, Mr. Wilson.

Mr. Colt, can you come back at 2 o'clock?

Mr. COLT. Yes, sir.

The CHAIRMAN. Very well. We will recess at this time until 2 o'clock.

(Whereupon the hearing was recessed at 12:30 p. m., to reconvene at 2 p. m.)

AFTERNOON SESSION

The committee reassembled at 2 p. m., pursuant to call, Senator Robert A. Taft (chairman) presiding.

The CHAIRMAN. The committee will come to order. Mr. Colt is here. Mr. Colt, do you wish to read your statement, and do you wish to be interrupted after each heading, perhaps?

STATEMENT OF S. SLOAN COLT, PRESIDENT, BANKERS TRUST CO., NEW YORK, N. Y.

Mr. COLT. Well, Mr. Chairman, if it is agreeable to you, I would like to summarize the statement which I have given to the committee. I think it would save a little of your time.

The CHAIRMAN. Very well, you may proceed.

Mr. COLT. Mr. Chairman and members of the committee, first let me say that I welcome the opportunity to appear before your committee and discuss a question that is very much on the minds of all thinking Americans; how can we best maintain the high level of employment, production, and purchasing power over a period of years?

One of the problems confronting American businessmen is: "When can we make a smooth transition from our present high volume of soft goods sales into a period of sustained prosperity?" For several months we have been experiencing successive readjustments in various lines of business, and I expect these to continue. While I cannot forecast in detail what the exact effects of these readjustments may be, I am reasonably optimistic about the general business outlook for the next several months. I doubt that we shall experience the decline of business activity comparable to that of 1920–21, or even as bad as that of 1937–38. My relatively optimistic views are based upon consideration of five factors:

First, for almost a year businessmen have been preparing for the widely heralded recession. They have made great efforts to get inventories in balance and to reduce outstanding orders. Our customers tell me that they have made good progress along these lines. Furthermore, inventory speculation is by no means as common today as after World War I.

Second, business has already made substantial readjustments, on a piecemeal basis, during the past 6 to 9 months of transition, to a buyers' market. In many commodities significant price adjustments have already taken place.

Third, the banking system today is in a much more liquid position than it was after World War I. My experience is that very little bank credit is being used for speculation, either in securities or commodities. Some months ago we started to survey the loans in our bank, in order to determine what our policy should be in case some of our customers were to find themselves in need of additional credit. I feel confident that we are in position to give our borrowing customers the support they need, and I believe this is true of other banks in the country. Also, I doubt that we shall see a repetition of the highly restrictive Federal Reserve credit policies which contributed to the price collapse in 1920.

Fourth, while prices are high and the price structure is unbalanced, the prices of many important manufactured products have risen less than the average. In addition, some of the prices that have risen the most could decline from their peaks without causing widespread unemployment. For example, prices of agricultural commodities have gone up 180 percent over 1939, and, in many cases, are substantially higher than required to bring forth a large volume of production. By contrast, the price index of commodities other than farm and food products has risen only about 62 percent over 1939, in spite of very substantial increases in wage rates.

Fifth, conditions in the heavy industries are reassuring. Our customers tell us they are operating at capacity, most of them with large accumulated backlogs of orders. The demands for refrigerators, automobiles, electrical and telephone equipment, railroad equipment, and industrial machinery, for example, appear sufficient to assure a high rate of output for a long time to come.

However, the business outlook is not entirely unclouded. We see a world in which very little real progress toward rebuilding has been made. The responsibilities of this country in world reconstruction are great, but there is an obscurity as to how far our efforts abroad are to go, how effective the program is going to be, and what it is going to cost.

The committees which have just been appointed by President Truman have a great opportunity to perform a constructive service on a very important problem.

We face the problem of providing, whether by means of credits or purchases from abroad, the dollars required by the rest of the world. In no event can we provide dollars in the long run unless we are willing to let more of the products of the rest of the world come into our market.

On the domestic scene perhaps the most unfavorable factor is the exorbitant level of construction costs. In recent months many of our customers have canceled arrangements for financing additions to plant. They voice one universal complaint—construction costs are too high. Many of them are going ahead with the purchase of equipment where they can see some direct saving. However, most of them are canceling or postponing all but the most essential construction. They recognize that higher prices for materials, higher wage rates, and delays have added to construction costs, but almost unanimously they place the greatest stress on the reduced output of labor in the building trades.

I am especially concerned about construction because, in my view, what happens to construction will have a great deal to do with whether we can continue to have good business. Generally speaking, activity in the heavy industries means the difference between prosperity and depression. So far as I know, we have never had a serious or sustained depression so long as the capital goods industries were active. Conversely, we have never enjoyed real prosperity unless these industries were busy.

In the outlook for these industries, business spending for plant and equipment plays an all-important role. It is by means of new plant and equipment, and by this means only, that we achieve greater efficiency, larger production, more employment, more purchasing power, and higher standards of living for more people. The high level of all business spending for plant and equipment, in turn, has two fundamental prerequisites: (1) That business have an incentive to assume the risks involved in making the investment; and (2) that the funds be available, either out of profits or from the security markets, to finance new plant and equipment. Both of these conditions depend basically upon the ability of business to earn adequate profits. Consequently I think it is high time that we recognize the need for satisfactory profits.

Most businessmen of necessity think in direct terms. They see that good profits, high employment, and high pay rolls go together. Profits are good when plants are busy and jobs plentiful; low profits generally mean idle plants and idle men. However, some theorists do not take such a realistic view of business profits. They say the present level of profits is too high and that, consequently, the purchasing power of the mass of consumers is being reduced. Neither contention is valid, in my opinion.

Corporate profits are not excessive. While it is true that profits recently have been at record levels, the same is true of national income. Apparently corporate profits are now about 8 to 10 percent of national income. This is in line with what we have experienced in other years of prosperity.

Furthermore, it appears that corporate profits reached their peak around the turn of the year. I doubt that profits this year will be as high as is indicated by the rate during the last part of 1946 or early this year.

Nor have corporate profits reduced demand purchasing power. Business has not hoarded its profits. Almost half the corporate profits were distributed in dividends last year, and thus went to consumers directly or indirectly. The balance, retained by business, was insufficient to finance large requirements for plant equipment and inventory. As a result, we experienced a rapid expansion of bank loans and a large volume of security issues for new capital.

Business cannot maintain a high rate of spending for plant and equipment unless profits are good. Responsible management does not make new plant investments unless they can show some profit. Nor are corporations able to accumulate funds or to raise them in the financial markets without a good profit record or attractive prospects.

In short, if we are to have an expanding economy, I believe the all-important role of business profits must be more generally understood. Business must be permitted to earn adequate profits in good years to provide against the lean years. Business profits provide the incentive and the means for making the investments in new plant and equipment which we must have if we are to make economic progress. There are some people who do not adopt this businessman's approach. They would attempt "to maintain mass purchasing power," to use their phrase, by: (1) increasing the level of Government spending; (2) raising wages and reducing prices at the same time; and (3) maintaining a tax system that is very burdensome for business and for risk capital. It is worth noting that the advocates of these policies are generally of the same group that in 1945 predicted unemployment of 8 million during the reconversion period.

The case for these proposals is generally based on the fact that, since early 1945 or mid-1946, the cost-of-living index has increased more than have wages and salaries. These comparisons are not very convincing to me, because the conclusions are biased by the particular date selected for the comparison. They would mean more if made between periods in which commodities were available in the market under comparable conditions. For example, compared with prewar years, the average earnings of workers have increased substantially more than the cost of living.

I know of no evidence that wage earners, as a group, have lost ground in recent years. Wages and salaries are about the same proportion of national income as they were in the last half of the 1930's or in the 1920's.

Some of the greatest price increases have occurred in commodities for which the consumer sets the price. On the other hand, many manufacturers have set prices well below what the traffic will bear. I need only cite the case of automobiles where high consumer demand has forced prices of new-used cars to substantial premiums over the manufacturers' prices. Thus, in many cases, high prices are a direct reflection of the high level of buying power. It does not appear plausible to me that we can have heavy consumer buying, high prices, and a general shortage of purchasing power, all at the same time.

The proposals to increase mass purchasing power by larger Government spending, higher wages not matched by higher output, and a more steeply graduated tax structure, embrace a basic fallacy, namely, the notion that we can build real prosperity by subsidizing consumer buying power. We tried these proposals in the 1930's. Government spending was increased, first under the "pump priming" theory. When this failed, the concept of "economic maturity" was devised to justify further spending. Both corporate and individual tax rates were increased substantially.

The results of these policies are well known to all of us. Only for a brief period in 1937 did the volume of physical production rise to a level above that reached in 1929. Unemployment averaged more than 8,000,000 from 1935 through 1939, and even during the best year averaged 6.4 million. This record of failure is conclusive. It convinces me that it would be futile to try another dose of the same medicine. I think we should discard these policies in coping with the problems of the 1940's and 1950's.

My experience in business convinces me that there is a tremendous latent need for business capital. I am astounded by the number and variety of the new products and processes developed in recent years. I know that American business needs and wants new plants and new machinery to translate this technical progress into higher standards of living.

We have a great opportunity. But if these strongly favorable factors are to be fully effective, we need to stimulate the incentives and maintain the ability of business, large and small, to make productive investments. And we need to be sure that the accumulation of risk capital, on which technical progress depends, is permitted, and its investment in business enterprise is encouraged.

Some governmental regulation of commerce and industry is necessary. But high employment, sustained production, high wages, and lower prices can be achieved only if the investor and the businessman, both large and small, are given the proper incentive. We must depend in the future, as in the past, on the initiative and resourcefulness of the millions of individual workers, businessmen, scientists, and professional men and women.

Mr. Chairman, I think that is the general summary of the paper which I have presented.

The CHAIRMAN. Mr. Colt, on the question of investment, where would most of the investment money come from—from the reserves of the corporations themselves—or to whom should we look for new investment money?

Mr. COLT. I believe there are two factors involved in that. Insofar as the corporations are concerned, there is a very substantial factor. The encouragement to the corporations to expand provides a large portion of the investment. On the other hand, in the case of new and smaller enterprises, I have come across many instances in the last 2 years, and I have found that the investment by individuals has been so discouraged by the general tax situation that, generally speaking, the risk involved is not worth putting up the money for. In other words, there is so much to lose in the risk and very little to gain after the tax.

The CHAIRMAN. Simply because the tax rates are so high.

Mr. COLT. Yes, sir.

The CHAIRMAN. What about the capital gains tax, as protection against the 25 percent tax?

Mr. COLT. I don't think the 25 percent tax has been a great discouragement. I think it has been the individual income tax that has been discouraging.

The CHAIRMAN. Rather than the 25 percent balancing the other? Of course, they would have to sell out then, I suppose?

Mr. COLT. You can't stay in business if you are going to do that. You have got to give the business to somebody else.

The CHAIRMAN. You spoke at one time, or suggested in your statement, that we had a transition to make to a more normal condition than we have today, and that is what has struck me. With exports at the rate of 17 billion we are in a condition completely abnormal so far as volume is concerned. Probably we are still catching up on various kinds of things which may not be normal either. Do you feel that we are going to be able to maintain the present rate of production and employment, or that there is something artificial about it that has to be corrected, and present a problem in correction?

Mr. COLT. To answer that question, I think we must first know what our national policy is to be with respect to Government purchases for export. That is why I referred to that in my paper. I believe it would be a very constructive move if we were to look ahead and figure what we could spend respectively from all angles—businesswise and political, if you please—and know what that amount is, and then determine whether our economy can stand that amount or what effect on our economy that amount might have.

As to the domestic side of the picture, in my opinion the large production is just coming in, and the soft goods will not have as great a proportion of the national income in sales as heretofore.

With the larger production of consumer durable goods coming in, it is my belief that the soft-goods volume will decrease and the durable goods will more than make up the difference.

The CHAIRMAN. What I am wondering is whether we do not face a reduction in the total volume anyway, maybe not in the next year or 2 years, but when we do reach the point where we have filled up the pipe lines and filled up the backlog of producing demand, whether we could then maintain the present volume or whether it was going to be replaced by new things or added to by new things to make that up or not.

Mr. COLT. I don't think a small decline from the present volume would be harmful.

The CHAIRMAN. What I am afraid of is that most of the pressure that I have seen has resulted, so far as I can see, from an inflation of, not necessarily prices, but inflation of activity beyond something that could be normally maintained. Then, when suddenly the export trade ends, as in 1929, it will add to the depression—the reaction from a sudden break in volume.

Mr. COLT. I don't think that need be, Mr. Chairman. I think that with the proper handling that would not necessarily be the case.

The CHAIRMAN. You think that if we go at it at a more normal rate we can, with a wise policy, decrease that gradually and there will not be the reaction that we had in 1929 and 1930, which resulted in the depression.

Mr. COLT. I do. That may be wishful thinking, but I have convinced myself that it can be done.

The CHAIRMAN. You would not think that a slightly lower rate of volume production would necessarily be a bad thing?

Mr. COLT. No; I do not.

The CHAIRMAN. Mr. Colt, you say you think it might be done. How would you do it? What can the Government do about checking or encouraging activity when it seems wise to have it encouraged or discouraged? What Government policies can we inaugurate? How far can we control things by the exercise of Government control and still maintain a free economy? That is the dilemma that I see before us.

Mr. COLT. I believe that with an atmosphere of encouragement to the investor, and with an atmosphere which does not hold that profits are something that should not be made, I believe that would go a long way toward accomplishing the very thing that you are talking about.

The CHAIRMAN. In other words, you think that we are dependent more or less upon constant investment of new money, and if that comes along without too much expansion it is the way to keep things stable?

Mr. COLT. I do.

The CHAIRMAN. What do you think of general credit control? I mean, how far are the policies of the Federal Reserve banks, say, in open market operations and so forth, effective? How far should they be used to discourage or encourage business activity?

Mr. COLT. I think they are only one part in the picture. I think that in and of themselves, obviously, they cannot be the final, determining factor, but I believe they can serve a very useful purpose. The whole question of money supply and the extension of credit can, in my opinion, be wisely handled by the Federal Reserve, and I think, from my personal point of view, it has been wisely handled up to the present time. I think we are fortunate in not heading into this period with speculation in securities and with that type of loan in the banks, and I think that we can give credit to the Federal Reserve policy for a large part of this condition.

The CHAIRMAN. What do you think of the regulation by Government control of consumer credit?

Mr. COLT. I believe that has been a good thing, and I would think it should be retained for the present. There may come a time when conditions may better permit and when the production of durable goods manufacturers is slowing up for the reason that credit is being restricted, that consideration should be given, perhaps, to relaxing that regulation.

The CHAIRMAN. But as a banker, you do not feel that we are restricting the free enterprise system by giving the Federal Government, the Federal Reserve banks—now, at least—the control of consumer credit?

Mr. COLT. I do not; no.

The CHAIRMAN. You think that is a proper weapon in discouraging undue inflation of buying power or purchasing power?

Mr. COLT. I think it is a part of the whole credit control. I do not think you can eliminate it from the question of credit, and therefore I think it should be regulated, and I think the Federal Reserve is the proper place for that to be done.

The CHAIRMAN. You did express, I think, the view that Government spending was not a very successful method of meeting a depression. What about the general question of taxation and Government debt?

Mr. COLT. I think that is a question that should be handled in an orderly way and not too radical a way. In principle I do not think anyone would disagree that any move we can make to reduce the national debt is a sound move. I believe it can be done too fast, and if done too fast it could create a deflationary atmosphere and condition which would be harmful to business. To the extent that we may effect economies in the operation of the Government, to the extent that we have anything left over after all of our expenditures, I believe an orderly reduction of the debt and some tax reduction would be very helpful.

The CHAIRMAN. But if you reduced the debt through taxation—I am not talking about paying off the Government bonds—if you reduced the debt by, say, eight or ten million dollars in a single year——

Senator FLANDERS (interposing). You mean billion, don't you, Senator?

The CHAIRMAN. Yes; billion dollars—excuse me—billion dollars in a single year, wouldn't that have a depressing effect on purchasing power?

Mr. COLT. I think it could have.

The CHAIRMAN. When you take taxes away from people who might otherwise spend it and you apply that on the bonds—I suppose, for the most part, short-term bonds held by the banks—most of the bonds that will be maturing will be held by the banks—and that would reduce deposits.

Mr. COLT. Reduce deposits and the supply of money.

The CHAIRMAN. That could be overdone?

Mr. COLT. I am not against it; I am for that.

The CHAIRMAN. But it could be overdone?

Mr. COLT. Yes; I think it could be overdone, and I believe that a portion of that should be devoted to reduction of taxes and a portion of it to the reduction of the national debt. We have had a substantial reduction of the national debt, and I am very heartily in favor of the fact that it has been done. But that was not done, necessarily, by money received from taxpayers.

The CHAIRMAN. It was not done at all by money received from taxpayers—about a billion dollars, I guess, for this year.

Mr. COLT. But it was done with money already raised from the victory loan. To that extent I think we performed a fine operation. We reduced the supply of money in the banks to that extent. I think we have to consider, in the control of credit, the matter of diminishing the money supply, the money deposits; therefore, I am heartily in favor of what we have done.

But, to answer your question, I don't think we should be too radical in using all that we can get from the taxpayer in reducing the debt.

The CHAIRMAN. Do you see any danger of overexpansion of bank credit loans?

Mr. COLT. At the moment, no. Of course, the bank loans increased after the close of the war by some $5,000,000,000. The banks are in excellent condition. There is plenty of money available for credit. I think the credits that have been extended since the war have been sound and productive credits. They are falling off at the present time, as I mentioned, because I think many companies are postponing any expansion program on account of the high cost of construction; and that has caused, generally speaking, a leveling off of demand on the part of those corporations for money.

The CHAIRMAN. I suppose that in general that expansion of bank credit is pretty well under the control of the Federal Reserve Board today, is it not, through the use of the Government bond market?

Mr. COLT. I believe that they need no more facilities at their hand than exist today.

The CHAIRMAN. So if they continued Government regulation, the danger resulting from undue expansion of credit would be pretty well within the power of the Government to prevent?

Mr. COLT. I believe so; yes.

The CHAIRMAN. Then all we need is somebody with ability and prophecy—prophetic nature, I suppose— to administer the control.

Mr. COLT. I think it will take some very excellent handling, but I think the power is there to do it if they want to.

The CHAIRMAN. Do you have any questions, Senator O'Mahoney?

Senator O'MAHONEY. I was interested in your statement about the judicious application of funds for the reduction of income taxes and the reduction of the national debt. What do you think is the proper measure of debt reduction? First, before you answer, let me tell you what I am thinking. We have a debt amounting to $258,000,000,000. It costs the taxpayers about 4½ to 5 billion dollars a year to carry that debt, so I am leading up to the other question as to what your judgment is, as a well-known banker, about our ability to continue to pay these heavy taxes to service the debt and the period during which we can hope to continue to carry it.

Mr. COLT. Well, I believe, Senator, that with the right atmosphere the Government would collect, perhaps, more dollars at a low rate than they are collecting today in a period of real business activity. That is my belief.

Senator O'MAHONEY. What about the carrying of the national debt. What do you consider to be the measure of debt reduction?

Mr. COLT. You mean reduction in relation to taxes?

Senator O'MAHONEY. What is the measure of the reduction of the debt? To what extent should we undertake to reduce that debt? Should we do it year by year? Should we try every year to set aside a certain proportion of the Government revenues to apply on the debt, and, if so, how much? To what extent can we neglect reducing the debt in order to reduce taxes?

Mr. COLT. I believe it is something that has to be flexible. I don't think you could set up a program, let us say today as we might like to—or I might like to—and say we are going to reduce the debt so much in the next 4 or 5 years. It seems to me you have got to have flexibility in that, because conditions at the time are going to determine, in my opinion, whether you can do this or that, or whether you cannot do it.

Senator O'MAHONEY. Do you think that if we follow a flexible policy of debt reduction there can ever be a better time in which to reduce the debt than when our national income is higher than it has ever been before, and corporate profits have, as you state in your paper, reached the maximum in history?

Mr. COLT. I think it is an excellent time to do it, but let us remember that in the reduction of that debt, much as I am for it—I don't want to give the impression that I am not—you are, in essence, deflating, and I don't think you ought to deflate too fast, and I think you have got to compensate the deflationary picture by perhaps a reduction of taxes to lift up consumer buying. So I favor a division. I don't think you should apply the whole thing to the reduction of the debt, nor do I think you should apply the whole thing to tax reduction.

Senator O'MAHONEY. But doesn't your thinking about reduction of taxes, when we have so high a debt, depend upon the theory that if you reduce taxes you are likely to increase business activity, and therefore the income of the Government?

Mr. COLT. I believe that with reduction of taxes you would increase business activity, and I believe that with a lower rate of taxation you might not collect much less than you are collecting today. I cannot prove that, Senator, but I have a feeling and somewhat of a conviction that that might be true.

Senator O'MAHONEY. But don't you agree with me that, after all, the success of any movement to increase income will have to depend upon the degree to which we have a successful incentive program?

Mr. COLT. Yes, sir.

Senator O'MAHONEY. Now, then, with respect to that, you tell us that you have conducted a survey of your customers to determine to what extent they might need additional credit. Can you tell us to what extent small businesses or individuals are to be classed among your borrowing customers?

Mr. COLT. We cover all sizes in the bank, Senator, and I believe that the money is available for all classes if it is necessary.

Senator O'MAHONEY. What is the amount of your average loan?

Mr. COLT. Our average loan would be substantially larger than those of small banks throughout the country.

Senator O'MAHONEY. Certainly.

Mr. COLT. And I would not necessarily have it in mind, but I think it is in the neighborhood of half a million dollars. I am estimating that. I haven't got the exact figures.

Senator O'MAHONEY. I would not expect you to carry the exact figures in mind. I asked that question because during the TNEC hearings on insurance, when some of the big insurance companies were here, they told the committee that they would not have very much interest in a business loan of less than $250,000 or $200,000, because of the burden of servicing such an account. So, what I have been seeking through these years is some practical method of promoting loans to small business in amounts lower than your average and below the minimum of the big insurance companies, which, under our system, are the principal resources of credit.

Mr. COLT. I think we get in that discussion the question as to whether the kind of money you are talking about is credit or whether it is equity. I am convinced myself that, generally speaking, throughout the country today the small bank or correspondent bank is loaning, where credit is the determination of the loan—is meeting all the demands. Now, if you want to go over that line to, let us say, the equity side of the picture, I think that is where your big problem has been.

Senator O'MAHONEY. You spoke of plant expansion. We have had considerable plant expansion in the last year, have we not, during this reconversion period?

Mr. COLT. Yes; we have.

Senator O'MAHONEY. What would you estimate that would amount to, over all?

Mr. COLT. I haven't got the figure in mind. I may have it with me, if you would like to have it.

Senator O'MAHONEY. Yes; I think we would.

Mr. R. F. RYERSON. About $12,000,000,000.

Senator O'MAHONEY. In what period?

Mr. RYERSON. For the calendar year 1946.

Senator O'MAHONEY. That is considerable expenditure in plant expansion, isn't it?

Mr. RYERSON. That is very good.

Senator O'MAHONEY. That would not indicate that there is any existing impediment in the way of investment of funds in plant expansion?

Mr. COLT. No; it would not, except I can say that from there on many programs which would increase that amount substantially have been curtailed because of the increased cost. In other words, the businessman is looking at it from the point of view of whether he can earn his way out at the cost that he has got to pay today for that plant, and he determines that he cannot except where he has to have it.

Senator O'MAHONEY. It has been a long time, has it not, since we have had such an investment in plant expansion?

Mr. COLT. That is right.

Senator O'MAHONEY. But, in your opinion, we could have had a much greater investment in plant expansion?

Mr. COLT. No; I am saying I would like to see that maintained, maybe not at that rate, but at a rate which is necessary to produce the goods at lower cost, if we can get them.

Senator O'MAHONEY. Now, that brings us back to the central theme of the dependence of production upon price, does it not? There comes a point of resistance?

Mr. COLT. Yes; there does. There is no question about that.

Senator O'MAHONEY. In your paper you spoke of producers not charging all that the traffic would bear and cited the motor industry as an example..

Mr. COLT. Yes, sir.

Senator O'MAHONEY. You were here this morning when Mr. Wilson was on the stand?

Mr. COLT. Yes, sir.

Senator O'MAHONEY. I was asking him questions in respect to other industries, to determine whether they also were charging lower prices than the traffic would bear. What is your opinion?

Mr. COLT. My observation is that there are many industries that have gone well below what the traffic would bear. I think the electrical industry is very definitely in that category.

Senator O'MAHONEY. Yet, as your second fundamental, you said that business has already made substantial reinvestment on the piecemeal basis during the past 6 or 9 months of transition to a buyers' market. Does not transition to a buyers' market mean that we are "transiting" to the period of resistance to high prices?

Mr. COLT. I think the retailer and the department store and the chain store found it necessary to change the type of merchandise which they were buying, and they were finding some resistance to price as to quality of the merchandise which they were selling. Their commitments have been reduced substantially as to that type.

Senator O'MAHONEY. During the war and during the period of shortage, the retailer could sell anything that was on the shelf?

Mr. COLT. That is right.

Senator O'MAHONEY. And you mean that there is now some buyer's resistance?

Mr. COLT. Yes; that readjustment has been taking place, and the inventory picture, which might under certain circumstances be a more serious one, has been normally adjusted.

Senator O'MAHONEY. It is a very important statement to make, if it is made, that industry as a whole is not charging what the traffic will bear, and if that is to be your testimony to the committee, I think it would be very valuable if you could substantiate it by some other examples outside of the motor industry. The press is full of statements to the effect that prices are too high, Members of Congress have been demanding an investigation, and this committee is apparently trying to make that investigation as to why prices are so high and what can be done to bring them down. If you are to tell us, and we can tell the country that industry as a whole is charging much less than it could get, I think that would be a very striking statement that ought to be developed.

Mr. COLT. I believe that to be true. I know it is true in the few companies on which I am a director. I believe the main criticism is in the cost of food and agricultural products rather than in the cost of manufactured products. I think Mr. Wilson explained this morning that when he sells to the dealers the price of the car is beyond his control after that point to a great extent. What the purchaser may do with the article he purchases is something that is pretty hard to control, and there is no doubt that there are secondary prices that are much higher than the price at which the article is being marketed today, but the manufacturer, generally speaking, in my opinion is not charging more than fair prices.

The CHAIRMAN. I just want to ask you there, Senator, if I may, aren't there lines now in which the sellers of manufactured goods, perhaps manufactured food or clothing, are finding buyer resistance to the prices that are being charged?

Mr. COLT. Yes; that is true, and I think very naturally.

The CHAIRMAN. What are those that you have heard of?

Mr. COLT. Well, in a number of the soft goods retail trade in the department stores there has been resistence. But I believe that is natural. The purchaser had only that article to buy during the war. He has not had the other elements of production available to him, and he is becoming more critical of some of the things that he has been buying. I think that in the textile picture there has been some small readjustment along that line.

Senator FLANDERS. I was about to ask if you felt there had been any difference in the history of soft goods and hard goods in respect to not charging all the market will bear?

Mr. COLT. I would not think so.

Senator FLANDERS. But I have had the impression that such things as household machinery, in general the hard goods used by the ultimate consumer, had been kept under control a little bit better than some other things that the ordinary householder buys.

Mr. COLT. That might be, but I would not be able to say to you that, let us say, in the textile industry they have been charging what the traffic would bear, necessarily. I don't think they have.

The CHAIRMAN. But have they been charging what the traffic will bear as compared to the cost?

Mr. COLT. No; I think that in some lines they could have charged more, substantially more.

Senator O'MAHONEY. You made a very interesting comparison, Mr. Colt, as I recall, showing that the prices of agricultural commodities since 1939 have risen about 180 percent, while the prices of manufactured commodities have risen only about 62 percent. To what do you attribute that difference?

Mr. COLT. We go right back to the old question of supply and demand if, for the sake of example, national policy were to change overnight and our Government were not to make the purchases that they have been making in the agricultural field, I think you would see a very different price picture there. In other words, I think there are more purchases than there are products in the agricultural field.

Senator O'MAHONEY. Is that true in the other fields too? Take the case of motors, again. The people of the country cannot begin to get the automobiles they would like to have. The demand is there and the supply is lacking.

Mr. COLT. Well, I think you are talking, of course, about an organization in the one case and you are talking about groups of individuals in the other case.

Senator O'MAHONEY. I was hoping you would say that.

Senator FLANDERS. I am afraid, Senator, you are making a good case for administered prices.

Senator O'MAHONEY. I was leading up to that, to find out whether we have them or not. Do we have administered prices in industry?

Mr. COLT. No; I would not think so.

Senator O'MAHONEY. You think it is just a matter of independent pricing?

Mr. COLT. No; I think that——

Senator O'MAHONEY (interposing). When I asked that question of Mr. Wilson this morning, Senator Taft suggested that the unanimity of action among manufacturers was probably due to the fact that, being comparatively few in number, they could easily follow leadership or competition, whereas, it was much more difficult for the thousands of producers in agriculture.

Mr. COLT. Well, I would say that in the manufacturing field, from my observation, the man that can sell the most at the lowest price is the man that gets the business, and each management is trying to do just that.

The CHAIRMAN. Rather for the future than for the moment?

Mr. COLT. Rather for the future, because they know that the competitive feature at some point will be there. In other words, it would be unsound to get what the traffic would bear—if that is the word you want to use—because in the long run they are looking to the customer and not just to today. They are looking to the 5-year pull.

Senator O'MAHONEY. But you still tell us that agricultural prices have risen to new heights primarily because there are so many groups of individuals bidding for a limited supply, together, of course, with Government purchases?

Mr. COLT. I think that is partly true.

The CHAIRMAN. Isn't there a substantial difference between the situation of a manufactured article sold to a wholesaler for sale to consumers, and a great market to which all the wheat comes, commodity markets where all the wheat is bought, and where everybody meets, so to speak, at a central point, and really the price is made by the supply and demand, is it not, like the stock market in New York on stocks? Isn't there a substantial difference between the price question in that kind of a commodity and manufactured goods that are made here and sold here to Mr. X, who uses it?

Mr. COLT. That is a point I was trying to make. I think there is very great difference.

The CHAIRMAN. I don't know what you would do about it.

Mr. COLT. Well, I haven't any answer to that either, but I do believe that—I will make this statement: I believe that, obviously, if the demand drops, the price will drop.

Senator O'MAHONEY. The picture that has been presented to us today by Mr. Wilson is that with respect to the automobile industry, the manufacturer is not asking the price which the consumer would be willing to pay, but is deliberately following a policy of setting prices well below that, and you told us that this is characteristic of the whole market.

Mr. COLT. I believe the company is the exception that is not doing that.

Senator O'MAHONEY. That is a tremendously interesting statement.

Mr. COLT. I think the percentage will be highly on that side.

Senator O'MAHONEY. And that is borne out by your statistics, that in the manufacturing field prices have increased only 62 percent over those of 1939. Yet it still remains a fact that there is price resistance here which, in the housing field for example, makes it impossible to construct the homes that the country should have.

Now, what are we going to do about it?

Mr. Colt. You are asking me, and I am going to be perfectly frank with you about it. I think it is highly possible that the wages that are being paid in the construction industry should be paid if the restrictions were eliminated as to how much a man might do per day, and if a man did a job, probably a percentage less, if you please, than he did years ago, it would greatly aid the building industry. I think the restrictions in the industry as to the amount of work a man can do are doing more to increase the cost of building than any other thing.

The Chairman. But isn't it true still that it is a question of supply and demand? Isn't it true that practically all of the materials that are made are being used very rapidly? As I get it, while there is resistance to prices that are very high, still it would be almost impossible to build any more houses than we are building at the present moment. For instance, plumbing supplies are distinctly a limitation, I take it, on the number of houses that can be constructed. I don't know about lumber.

Mr. Colt. I think there would be many more houses planned today if the costs were down. There would be a greater backlog of that type of construction in the offing. I think that is important, looking ahead over the next 2 years, and that is why I bring out that point.

Senator O'Mahoney. There are at least two factors there, cost of construction and cost of materials.

Mr. Colt. That is right.

Senator O'Mahoney. The reports that we get are all to the effect that the cost of materials is too high.

Mr. Colt. Well, the cost of materials in some respects has already started to readjust. The cost of lumber is already readjusting itself.

Senator O'Mahoney. And you think we are coming to a buyer's market in construction materials?

Mr. Colt. It may be approaching that.

Senator O'Mahoney. You said that some Government regulation is necessary, but that in the main it ought to be considerably less. Since we are discussing the place that Government must play in this picture, could you give the committee any better idea of what you regard to be the boundaries of Government regulation?

Mr. Colt. Well, my purpose in mentioning that was that I believe it is necessary in certain lines. In other words, I believe that public utilities, generally speaking, appropriately should have regulation. I have already said that I thought the regulation of credit on the part of the Federal Reserve is appropriate. But the heart of the matter is on the other side of the picture from my point of view, and less Government regulation would create the favorable atmosphere for the investment of the public's money and of the money of corporations in plant expansion. As far as covering the whole scope of the question of regulation, I don't think I am competent to do that.

Senator O'Mahoney. Yet the facts before us are that we have spent $12,000,000,000 in plant expansion, which would indicate that the atmosphere was not particularly unfavorable to capital expenditures. As a result, I am at a loss to know precisely what change you suggest.

Mr. COLT. We are talking about maintaining a period of plant and other construction and I am saying that my point of view is that unless the atmosphere is favorable for the investor, the future construction of plants and equipment by corporations will be retarded, and I think that is a very important aspect of the period that we are entering into.

Senator O'MAHONEY. Do you agree that we have a favorable atmosphere now?

Mr. COLT. I think it is more favorable. I think the criticism of excess profits does not help.

Senator O'MAHONEY. Now, this has been going through my mind. You think reduction of taxes would be helpful. We have come to a period in our economic development when we have incomparably less unemployment than ever before.

Mr. COLT. Yes, sir.

Senator O'MAHONEY. When we have the highest national income in the history of the country, when profits are up in every segment of industry—now, what more favorable condition can we look for?

Mr. COLT. I think that is a very proper question, and the answer is that they should be left there.

Senator O'MAHONEY. Then we should not make any changes?

Mr. COLT. We should not make changes that would discourage the condition that now exists.

Senator O'MAHONEY. That is right. Now, how about encouraging the investment of the savings of the little fellow?

Mr. COLT. I think the principle is the same.

Senator O'MAHONEY. Now, this increase that you see in the demand for plant expansion, can you divide that into special categories? Is it among the corporations or do small businesses share in this movement?

Mr. COLT. I think the principle is the same in both cases.

The CHAIRMAN. But isn't it right and desirable to encourage the small saver to put his money into these things?

Senator O'MAHONEY. The man who saves, say, $200 or $300 a year?

Mr. COLT. I am thinking more of the man who wants to start his own business.

The CHAIRMAN. But I have always been puzzled by the fact that, as we reduce the savings of the upper-income group and throw savings more into the lower-income groups, the latter necessarily say, "We ought not to invest in equities." They are people who want to put their money into insurance companies or into fixed-income returns and Government bonds. When we cut down the savings of the upper groups by the high income-tax bracket, who is going to save the money that will go into equities? There have been plans for trying to accumulate these funds and let them be invested with Government insurance of some sort, or some other device that will lead to smaller savings going into the equity investment that we need. We haven't any plan.

Mr. COLT. No; I haven't, Senator. In my reference to it I am thinking, as I said, more of the man that wants to start his own business, go out and do something, and he is discouraged from doing it in many cases.

Senator O'MAHONEY. There is one other question I wanted to ask you. With respect to your discussion of mass purchasing power, I was not altogether clear about your point with respect to that.

Mr. COLT. I only wanted to make the point that profits by industry do not discourage mass purchasing power. The statement has been made that profits discourage mass purchasing power.

Senator O'MAHONEY. You recognize the need for mass purchasing power?

Mr. COLT. Yes, sir.

Senator O'MAHONEY. And you feel that measures should be taken to maintain mass purchasing power?

Mr. COLT. Not if you mean Government spending.

Senator O'MAHONEY. No; I don't mean that. I never have been an advocate of Government spending. But after all, we have developed a pragmatic sort of world. I remember very distinctly that about 1937 President Roosevelt sent up a budget here to Congress in which he undertook to reduce Government spending. He cut the Government budget very substantially that year, and it was immediately followed by a recession. Then there was a great demand, quite nonpartisan, in Congress for the resumption of spending.

The CHAIRMAN. I thought it was your position that recovery started from March 4, 1933. I always understood your position to be that from that day things got better.

Senator O'MAHONEY. I will give you book and page on it if we are talking economics now and not politics.

Senator FLANDERS. Mr. Chairman, I must leave at 3:30, and I have one or two questions that I would like to ask.

The CHAIRMAN. Very well, Senator.

Senator FLANDERS. Mr. Colt, I have been very much interested in this committee from the time the law under which it was set up was first introduced. In its original form, as I read it, it was based on the idea that it was possible to prophesy what was going to happen for 18 months in advance, say, and having prophesied, to take the necessary steps to prevent the prophecy from being fulfilled, if that was what you wanted to do. I was very skeptical about the possibility of doing that at the time.

The bill as it passed the Congress and was signed by the President, and under which we are now organized, does not place so heavy an emphasis on the possibility or necessity for accurate prophecy. It has seemed to me that about as far as you can go in that line stops well short of prophecy. You can analyze the situation in which you are at a given moment and say to yourself: "Here we are. Now, is there something which is capable of increase or expansion? Is it something more nearly normal which you would hope to keep? Is it something above normal from which we must prepare to drop off, or where are we?" I suppose there is a small element of prophecy in that, but in general it involves an analysis of where we have been and where we are.

I was interested in what you said in your testimony with regard, as I understood it, to preparing for some sort of a gradual drop-off from where we are over the period of the next year or so. I was wondering if I had understood you correctly in saying that you felt we were on a level which we perhaps would be unable to maintain.

Mr. COLT. My feeling on that is that we can maintain this level. I would not go further than a year or a year and a half. The question of prices, I believe, is one that will meet with further readjustment.

I expect to see a lower price level. I do not expect to see it anything like as low as it was before the war. We have a Government debt to support, and I think a higher price level will be necessary to support that debt. I do see a readjustment but I do not see a depression.

Senator FLANDERS. The readjustment, however, would involve some little decrease in production, some little decrease in national income?

Mr. COLT. I think it would involve that; yes, sir.

Senator FLANDERS. But if we behave ourselves we will then adjust ourselves to that slightly lower level. That raises a question which has been for some years very much in my mind, and that is the possibility, in view of the comparatively low level of production and consumption of a large percentage of the population, of working onto a higher level from almost wherever we may be. It seems as though there are great resources for expansion. We will take a train right straight through the State of X, just for example. There you see chances for more effective application of human labor and chances for greater consumption. Why doesn't that open an opportunity on the part of business and Government and labor to go to a higher level for the country as a whole?

Mr. COLT. I think we still have frontiers.

Senator FLANDERS. Yes; that is a frontier. That is a social frontier, not a geographical frontier. It is a social frontier.

Mr. COLT. Yes, sir.

The CHAIRMAN. There is no reason why we should not go on expanding as we have expanded in the past, but the question is whether 3 years from now we might be somewhat lower than we are today.

Senator FLANDERS. Yes; I think your thought on that is my thought. It is clear to me we are apparently in agreement.

There is one other question I wanted to ask with relation to Government expenditure, and so forth.

In the unhappy event that this joint committee utterly fails in its duty, or having carried out its duty it utterly fails in salesmanship to the Congress and the administration, and the country at large, and becomes a voice crying in the wilderness, and we get into a depression—I am speaking now about Government spending—would you feel that the best way of handling that depression was to balance the budget through hell and high water?

Mr. COLT. I would not feel that. I would feel that you would probably have to go in debt.

Senator FLANDERS. That is, the national debt is something that at times you might have to add to; at other times you should be diminishing, with probably, on the whole, over good times and bad times, a slow decrease. Would that be your idea?

Mr. COLT. Exactly.

Senator FLANDERS. That idea is all right with me. That is all I wanted to say.

Mr. HUBER. I wanted to ask Mr. Colt—the Senators are clairvoyants; they have asked most of the questions I had in mind, but do you know of any economic reason why the terminal-leave bonds should not be paid in cash, and do you have any feeling to express on that?

Mr. COLT. What bonds did you say?

Mr. HUBER. The terminal-leave bonds, so-called GI terminal-leave bonds that were issued by the Seventy-ninth Congress, and it has been proposed that they be paid in cash. Do you feel that that might have any inflationary influence on the currency of the country?

Mr. COLT. I do not believe it would have an inflationary influence, necessarily, but I think that is part and parcel of the whole budgetary picture. To answer the questions specifically whether they should be paid or not would be one thing, but they are part and parcel of the whole budgetary picture that the Government is going to be required to put up.

The CHAIRMAN. It is not part of the budget as far as budget expenses are concerned. It was charged to expense when the bonds were issued, were given to the men.

Mr. COLT. Yes; that is right.

Mr. HUBER. I just asked that because we are going into the whole picture of housing veterans and other matters.

Mr. COLT. I don't think that payment to them at this time would help them from the point of view of the housing situation. In other words, I think fundamentally, if you are building houses that do not have value, you are doing something unsound. I don't believe it would help anybody to get more money to buy that house at unsound value, and in my opinion, those values are unsound.

Mr. HUBER. I should have explained the reason for my asking the question, that housing has been touched upon in other matters, and the veterans and veterans' welfare have been mentioned.

The CHAIRMAN. Mr. Colt, with regard to credit control, it seems to me this is something specific that we might act on. What do you think of the controls over the stock exchange, the margins required, in relation to your statement that we need more money for equity investment? Is that discouraging, or is it a proper discouragement, or what do you think of that control?

Mr. COLT. You may remember that that was relaxed, Senator, in some respects, by letting people borrow on rights to subscribe to new stock. I think that was a move in the right direction. Generally speaking, I think a freer market on the stock exchange would probably be a helpful thing. On the other hand, I am not averse to regulation which has prevailed with respect to credit.

The CHAIRMAN. Do you think the Government should have power to limit the margins or require margins on stocks?

Mr. COLT. I think it is part of the whole credit pictures; yes, sir.

The CHAIRMAN. What about the banking picture itself—since Mr. Patman is not here? Are banks making too much money or what do you think on that subject? He would want to know if he were here.

Mr. COLT. A year and a half ago there were some people who thought they were making too much money. We had made a forecast—the banks—and come to the conclusion that outgo, expenses, were going up and return was going down, mindful of the fact that securities at higher rates were going off the books and new ones, investments, were going on at a lower rate. I would think the earnings of the banks would be down this year 10 percent, 12 percent.

The CHAIRMAN. From 1946?

Mr. COLT. From 1946, last year; yes, sir.

Mr. HUBER. How would that compare with 1939?

Mr. COLT. Can I get my figures to answer that question?

Mr. RYERSON. We do not have that.

Mr. COLT. Well, I am afraid I cannot answer that question, but I am saying that in the case of our own institution, our earnings were higher in 1946 by about 10 percent as compared to 1939.

(Mr. Colt submitted the following paper:)

STATEMENT OF S. SLOAN COLT, PRESIDENT, BANKERS TRUST CO., NEW YORK, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, JUNE 24, 1947

Gentlemen, I welcome the opportunity to appear before this committee and to discuss a question that is very much on the minds of all thinking Americans: How can we best maintain a high level of employment, production, and purchasing power over a period of years?

While I speak primarily as a New York banker, I also speak as a businessman. It has been my opportunity, for many years, to serve on the boards of directors of industrial corporations. This has enabled me, I trust, to appreciate the factors that enter into the business decisions which play such an important part in economic progress. From these contacts and experiences has evolved a point of view that I should like to present before this committee.

There can be little disagreement as to the fundamental objectives of the Employment Act of 1946. What differences of opinion there are relate to the methods by which the purposes of the act can be most effectively advanced, and to the policies that should be established by Government. It is to be hoped that through collective wisdom and patience we may work out programs of action that are practical when viewed in the light of the realities of business and economic life.

Business sentiment.—In retrospect, I think we can agree that the reconversion from production for war to production for peace has been achieved with greater facility than many of us thought possible in 1945. In reconversion, as in war, the American productive system stands preeminent in the world, and the whole Nation is the beneficiary. However, the success of the reconversion process has not resulted in complacency about the future. Two years after the end of the war, we see a world in which very little real progress toward rebuilding has been made. The responsibilities of this country in world reconstruction are great, but there is obscurity as to how far our efforts abroad are to go, how effective the program is likely to be, and what it is going to cost. The committees which have just been appointed by President Truman have a great opportunity to perform constructive action on a very important problem.

We face the problem of providing, whether by means of credits or purchases from abroad, the dollars required by the rest of the world. In no event can we provide dollars in the long run unless we are willing to let more of the products of the rest of the world come into our markets.

At home, we see a price structure at levels almost twice those of prewar, and remember what happened to prices in 1920 and 1921. Many people are concerned about the future of agricultural prices, when world agricultural production recovers. We are worried by the level of construction costs, the low productivity of labor, the union restrictions on output in many industries, and the attitude of some short-sighted labor leaders and their complete unwillingness to make any concessions to an aroused public opinion. We are astonished by the argument that prosperity can be built on a firm and lasting foundation only by a simultaneous and rapid increase in wages and reduction in prices, and are disturbed by the criticism of legitimate business profits, by the level of Government spending, and the refusal to come to grips with that problem, especially in view of the unknown demands for international relief and the new domestic spending programs that are being proposed.

Current outlook for business.—In addition to these more general problems, businessmen are specifically concerned with the present prospects for business activity. In appraising the business outlook today, we appear to be nearing the end of a period characterized by a high volume of soft-goods sales. This has been supported, in part at least, by temporary factors such as shortages on the part of consumers and business, by the scarcity of many consumer durable goods such as automobiles and home appliances, by the use of accumulated savings, and by the rapid replenishment of inventories. Neither the spending habits of consumers nor the production of industry has yet returned to the expected peacetime pattern.

In view of this situation, some readjustments in business are likely. This is not unexpected and in fact is healthy. Except under conditions of regimented, all-out production for war, readjustment and change are normal. Some markets and industries have already been affected: the diamond and fur markets last fall; the entertainment business in the winter; some segments of the apparel and shoe industries more recently. I cannot forecast how numerous these adjustments will be, nor what their exact effects may be in the months ahead, but I am reasonably optimistic about the general business outlook for the next few months. I doubt that we shall experience a decline of business activity comparable to that of 1920–21, or even as bad as that of 1937–38.

My relatively optimistic views are based upon consideration of five factors:

First, for almost a year businessmen have been preparing for the widely heralded recession. They have made great efforts to get inventories in balance, and to reduce outstanding orders. Our customers tell me that they have made good progress along these lines. Furthermore, inventory speculation is by no means as common today as after World War I.

Second, business has already made substantial readjustments, on a piecemeal basis, during the past 6 to 9 months of transition to a buyers' market. In many commodities, significant price readjustments have already taken place.

Third, the banking system today is in a much more liquid position than it was after World War I. My experience is that very little bank credit is being used for speculation, either in securities or commodities. Some months ago we started surveying the loans in our bank in order to determine what our policy should be in case some of our customers were to find themselves in need of additional credit. I feel confident we are in position to give our borrowing customers the support they need, and I believe this is true of other banks in the country. Also, I doubt that we shall see a repetition of the highly restrictive Federal Reserve credit policies which contributed to the price collapse of 1920.

Fourth, while the prices are high and the price structure is unbalanced, the prices of many important manufactured products have risen less than the average. In addition, some of the prices that have risen the most could decline from their peaks without causing widespread unemployment. For example, prices of agricultural commodities have gone up 180 percent over 1939 and, in many cases, are substantially higher than required to bring forth a large volume of production. By contrast, the price index of commodities other than farm and food products has risen only about 62 percent over 1939, in spite of very substantial increases in wage rates.

Fifth, conditions in the heavy industries are reassuring. Our customers say they are operating at capacity, most of them with large accumulated backlogs of orders. The demands for refrigerators, automobiles, electrical and telephone equipment, railroad equipment, and industrial machinery, for example, appear sufficient to assure a high rate of output for a long time to come.

However, the business outlook is clouded by other factors. Perhaps the most unfavorable factor on the domestic scene is the exorbitant level of construction costs. In recent months many of our customers have canceled arrangements for financing additions to plant. They voice one universal complaint: Construction costs are too high. Many of them are going ahead with the purchase of equipment where they can see some direct saving. However, most of them are canceling or postponing all but the most essential construction. They recognize that higher prices for materials and higher wage rates have added to construction costs, but almost unanimously they place the greatest stress on the reduced output of labor in the building trades.

Importance of capital investment.—I am especially concerned about construction because, in my view, what happens to construction will have a great deal to do with whether we continue to have good business. Generally speaking, the activity in the heavy industries, most of which are closely related to construction and expansion of plant and equipment, means the difference between prosperity and depression. This country never has had a serious or sustained depression so long as the capital-goods industries were active. Conversely, we have never enjoyed real prosperity unless these industries were busy. Thus, the prospects for business for the next few years depend on the outlook for the heavy industries.

In the outlook for these industries, business spending for plant and equipment plays an all-important role. It is by means of new plant and equipment, and by this means only, that we achieve greater efficiency, larger production, more employment, more purchasing power, and higher standards of living for more people.

Furthermore, as a banker and a businessman, I believe I have some knowledge of the factors which encourage business spending, and of the conditions which tend to stifle such spending. A high level of business spending for plant and equipment requires that two fundamental conditions be met, namely, (1) that business have an incentive to assume the risks involved in making new investment, and (2) that the means be available, either from profits or from the security markets, out of which expansion can be financed. Both depend basically upon the rate of profits and profit expectations.

I think it is time that the role of profits be discussed in a realistic fashion and in some detail. Most businessmen of necessity think in direct terms. They see that good profits, high employment, and high pay rolls go together. It is their everyday experience that profits are good when plants are busy and when jobs are plentiful, and that losses or low profits generally mean idle plants and idle men. Looking at the economy as a whole, the records show that years of good profits are likewise years of high national income, good employment, and large wage and salary payments. And the burdens of depression are not borne by workers alone. In fact, business profits are generally the first to decline and usually fall faster and further than do wages and salaries in a depression.

Some of the theorists do not take such a realistic view of business profits. They say the present level of profits is too high, and that, consequently, the purchasing power of the mass of consumers is being reduced. Neither contention is valid.

Are profits too high?—Corporate profits, estimated at a rate of about $15,000,000,000 a year at the turn of the year, were at the highest level in the country's history. So also was national income. Measured against other factors in the economy, corporate profits are currently no higher than in other prosperous periods. In periods of high business activity, corporate profits generally average between 8 and 10 percent of national income. Currently, profits are within this range. Furthermore, in the banner year 1946, the last calendar year for which results are available, the net income of the country's leading manufacturing corporations comprised a smaller percentage of sales than was the case in the best years of the 1930's. The latter, as we all recall, were not especially properous years.

One significant factor generally overlooked in the current profit picture is that the accepted methods of business accounting result in a substantial overstatement of earnings under present conditions. This is because depreciation charges are based upon book values of capital equipment, whereas replacement of plant or equipment at present high prices requires a considerably larger outlay than is currently being accumulated through depreciation charges. Thus, some of the current profits are quite illusory and really represent the using up of physical capital.

The illusion of high profits is also enhanced by bookkeeping entries which simply record the sale of low-cost inventories in a period of rising prices.

Recent data from the Department of Commerce show that as much as 4 to 5 billion dollars out of total corporate profits of 12.5 billion dollars in 1946 may represent increases in the book value of inventory holdings due to a rise in prices. However, losses will materialize once prices turn down, as they are already doing in some fields.

As a result of rising prices, inventory and working-capital requirements have increased. Thus, even if a concern realizes a windfall profit due to a rise in prices on its inventory, these profits do not represent a real improvement in financial condition since they must generally be retained to provide additional working capital.

Business financial health requires a high level of profits under conditions of active business. Corporations must provide for their own security. There is no minimum wage or unemployment insurance for business capital to carry it through the lean years. Corporate profits fluctuate sharply with the level of economic activity. Even a slight downturn in business can produce a very large cut in earnings, and for many corporations can mean a loss. Consequently, out of the profits of the good years reserves must be built up to cover the bad.

Although 1946 was a year of large corporate profits, many leading companies had an unsatisfactory record. Most soft goods industries operated at a high profit level in 1946, but they appear to have passed their peak. The heavy industries, on the other hand, generally showed relatively unsatisfactory results for most of last year, and only during the past 6 to 9 months have their results been favorable. On balance, it appears that corporate profits as a whole have reached their peak and that profits for all of 1947 will not be as high as indicated by the first quarter's results.

Do profits reduce purchasing power?—Even though profits are not excessive, they might still be regarded as undesirable if they withdrew purchasing power or otherwise restricted the economy. This might be true if profits were salted away in some hidden cache. What actually happens is quite different.

In 1946, about 45 percent of corporate profits were distributed as dividends. The shares of most large American corporations are widely held and the dividends are consequently widely distributed. Some of the largest stockholders are institutions or scientific, educational, or charitable foundations. In the case of the wealthy stockholders, current high taxes take the bulk of any dividend income. While this redistributes income, it does so at the expense of a continuing supply of risk capital.

Most critics admit that corporate profits, to the extent that they are distributed as dividends, do not reduce purchasing power. They focus their objections upon the portion that is retained. Even the Federal Government, at the time of the ill-designed undistributed profits tax, subscribed to some such misconception. As a matter of fact, however, retained earnings as a whole do more to encourage business spending, to stimulate economic activity, and to expand purchasing power than do the amounts paid out as dividends.

Undistributed profits may be used to add to working capital or may be invested in plant and equipment. If retained as working capital, it is generally in response to a higher rate of activity that requires more work in process, greater inventories, larger pay rolls, and more credits to customers. Or, retained earnings may be used to finance new investment in plant and equipment. As I have pointed out before, such expenditures in the construction and heavy industry field are the most effective stimulants of economic prosperity.

In 1946, despite the record level of business profits, the amount retained was insufficient to finance the large requirements for plant, equipment, and inventories. As a result, we had during the year more than a $4,000,000,000 expansion in bank loans to business, and about $3,000,000,000 of security issues for new capital. In addition, cash and Government securities were drawn down by as much as 7.5 to 10 billion dollars in order to finance business needs.

It must be clearly realized that business cannot maintain a high rate of investment unless prospects are good for a sustained period of reasonably satisfactory profits. Responsible management does not undertake to expand facilities unless they can show some profit. Nor are corporations able to accumulate funds without making profits or to raise them in the financial markets without a good profit record or attractive prospects.

My conclusion, therefore, is that the best way to "promote maximum employment, production, and purchasing power" is to see to it that business enterprise has the incentive and the means to support a high level of business spending. This, in turn, depends on the ability of business to earn and retain adequate business profits. In short, if we are to have an expanding economy I believe that we need to adopt more constructive and favorable attitudes and policies with reference to business and business profits.

Mass purchasing power.—There are some people who do not agree that the most desirable and effective way to insure a high level of employment is to encourage business spending. They would adopt a fundamentally different approach; namely, an effort to maintain mass purchasing power by (1) increasing the level of Government expenditures; (2) raising wages and reducing prices at the same time; and (3) maintaining a tax system that is very burdensome for business and for risk capital. It is worth noting that the advocates of these policies are generally of the same group that in 1945 predicted unemployment of 8,000,000 during the reconversion period.

Those who advocate steps to increase mass purchasing power generally base their case on the fact that, since early 1945 or mid-1946 the cost-of-living index has increased more than have wages and salaries. They conclude that this portends, for the near future, a situation in which consumers will not be able to buy the output of the economy.

Such a comparison of price and wage changes is of doubtful validity in supporting the claims of vanishing buying power. Conditions in the base periods, whether early 1945 or mid-1946, were very unusual. We were still living in a war economy, with its characteristics of widespread scarcities of consumer goods, high levels of individual savings, artificially low prices, down grading of quality, lack of standard merchandise, together with black markets and black-market prices in some fields. What we have seen in recent months is the return to a situation in which demand and supply are permitted to have their customary effects on prices.

It is worth noting that some of the greatest price increases have occurred in commodities for which the consumer sets the price. On the other hand, many manufacturers have set prices well below what the traffic will bear. need only cite the case of automobiles, where high consumer demand has forced prices of new-used cars to substantial premiums over the manufacturers' prices. Thus, in many cases, high prices are a reflection of the high level of buying power. It does not appear plausible to me that we can have heavy consumer buying, rising prices, and a shortage of purchasing power, all at the same time.

The wage and price comparisions would be more meaningful if made between periods in which commodities were available in the markets under comparable conditions. Comparisons between such periods show results contrary to the trends during the reconversion months. For example, compared with prewar years, the average earnings of workers have increased substantially more than has the cost-of-living index.

I know of no evidence that wage earners, as a group, have lost ground in recent years. In both the last quarter of 1946 and in the first quarter of 1947, wages and salaries comprised almost exactly the same percentage of national income as they did in the 1920's or in the prewar period from 1935 to 1939.

The proposals to increase mass purchasing power by more Government spending, higher wages, and a more steeply graduated tax structure embrace a fundamental fallacy, namely, the notion that subsidizing consumption and consumer buying power can build real prosperity. We have had some fairly recent experience that illustrates the futility of these proposals.

Experiments in the 1930's.—In the 1930's we tried most of the proposals now being advanced to increase mass purchasing power. Our experience with Government spending is well known. From a level of about $3,500,000,000 per year in the early 1930's, the budget rose to about $8,000,000,000 in the later years of the decade. These expenditures were first regarded as a temporary expedient required to prime the pump of private enterprise. The theory was that the spending would be reduced as business activity increased. Later in the decade, when the ineffectiveness of Government spending as a pump primer became apparent, the emphasis was shifted, and the concept of economic maturity was advanced in order to provide a justification for a permanent program of Government spending.

Efforts to increase mass purchasing power did not stop with Government spending. The idea of raising wages in order to support prices and demand was aggressively supported, and the power of organized labor to enforce demands for higher wages in the midst of widespread unemployment was enhanced. In addition, corporate tax rates were increased in 1932, 1935, and 1938, and a tax on undistributed corporate profits was made effective for 1936 and 1937. The individual tax structure was revised to make the system more burdensome, and the maximum surtax rates were increased from 20 percent prior to 1932 to 75 percent in 1935. These were the means by which the policy of raising mass purchasing power was implemented in the 1930's.

Results in the 1930's.—The results of these policies are well known to all of us. Only for a brief period in 1937 did the volume of physical production rise to a level above that reached in 1929. Unemployment averaged more than 8,000,000 for the years 1935–39 and even in the best year averaged 6,400,000. This record of failure is conclusive. It convinces me that we do not want to revive these policies.

The pump-priming theory did not work; Government spending did not encourage business spending. On balance, this program and the measures that accompanied it did much to destroy the incentives and the means for private capital investment. Expenditures for construction and on producers' machinery and equipment averaged about 40 percent lower in 1935-39 than in the latter part of the previous decade. The policy of high wages resulted in increased costs, contributed to inflexibility of prices, and made difficult price reductions that might have increased sales. A wave of labor trouble and wage increases in 1937 was followed by a rapid rise in unemployment in 1938.

Increases in taxes during the 1930's made less attractive that assumption of risk which is necessarily associated with private investment. Tax exemption became more valuable with each rise in the tax rates, so that more and more investors became less and less interested in risking their funds in new enterprises, and preferred the relatively secure haven of Government securities.

Finally, business was called upon to adjust itself to a variety of new laws and regulations. Many of these were required to correct the mistakes of Government and business during the 1920's. But the very vigor with which their enactment was espoused, the all-inclusive nature of some of the changes, and the extreme manner in which some of the acts were administered, contributed to a break-down in business confidence. In turn, this delayed our recovery.

Shall we repeat our experiences of the 1930's?—This record of failure convinces me that a repetition of the policies of the last decade would be no more successful this time. Government spending is already much greater, both in absolute amounts and relative to the dollar volume of business in the country, than it was a decade ago. Those who would espouse further increase in Government spending from present inflated levels must assume the burden of proof. It is their obligation to demonstrate, conclusively, that Government shows greater wisdom in its spending than do those who must pay the bill.

Over a period of years, wages have been increased as labor productivity has risen. Gradual increases in wages and price reductions have been the means whereby the benefits of our productive system have been translated into higher standards of living. However, rapid and substantial wage increases, not accompanied by increases in output, raise costs without increasing the supply of goods, and constitute a tax on the mass of consumers.

Those who favor making our tax system even more steeply graduated apparently ignore the tremendous increases that have occurred in the war years in the tax burdens upon those of modest means, and the confiscatory nature of the present tax rates for those of large incomes. An individual in the $10,000 income bracket can keep only 68 cents of each dollar of additional income; at $21,000 he can keep only 50 cents; at $90,000 he can keep but 20 cents. And it should not be forgotten that these rates also apply to dividend income, even though the corporation tax rate is double the high point reached in the 1930's, and more than three times the rate of the early 1930's.

It is probably true that our present tax structure has carried the principles of progressive income and estate taxation, which are now generally accepted, to such an extreme as to endanger the very system of profit motives on which they rest. The effects of these tax policies take time to make themselves apparent, and for a time the economy can live on its accumulated fat. Over a period of years, however, the effect can only be to erode and wear down the stock of risk capital, and to impede the flow of new risk capital on which American enterprise has depended in the past for its pioneering, its new ventures, its new industries, and its ultimate success.

Summary.—To summarize my point of view:

1. Although continued business readjustments lie ahead, demands on heavy industry are so great that a business downturn comparable with that of 1920–21 appears unlikely. However, if high employment and economic activity are to be sustained over a period of several years, business spending for plant and equipment must be encouraged.

2. The experience of the 1930's proves that a policy of low profits, sharply increased wages, higher taxes, and more Government spending does not achieve high employment and prosperity.

3. Fortunately, there are large accumulated latent demands for business plant and equipment. Recent scientific and technological progress has opened new vistas for a high and expanding level of business for a long time to come.

4. In order that these strongly favorable factors can be fully effective, Government policies should be directed toward stimulating the incentives and maintaining the ability of business, large and small, to continue programs of plant expansion and modernization.

5. The accumulation of risk capital must be permitted; its investment in business enterprise must be encouraged.

6. For the Federal Government, these policies are surely the only effective and the least expensive means of achieving the aims of the Employment Act of 1946.

The CHAIRMAN. If there is nothing further, we thank you very much, Mr. Colt.

I am informed that this room has been promised to a housing association tomorrow, so the committee will meet at 10 o'clock in the Finance Committee room, which is room 312, right next door to this room.

(Whereupon, at 3:30 p. m., the committee adjourned until 10 a. m. Wednesday, June 25, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

WEDNESDAY, JUNE 25, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in room 312, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, and O'Mahoney; Representatives Herter, Patman, and Huber.

Also present: Staff members Charles O. Hardy and Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. I think you had better go ahead, Mr. Hoffman. The meeting will come to order. Are you going to summarize this statement?

Mr. HOFFMAN. Yes.

The CHAIRMAN. All right. Go ahead, then.

STATEMENT OF PAUL G. HOFFMAN, PRESIDENT, STUDEBAKER CORP., SOUTH BEND, IND.

Mr. HOFFMAN. My name is Paul G. Hoffman. In response to your wide-open and somewhat dangerous invitation to express my views on economic policy, I prepared a written statement which has been submitted to you and which, I might add, is mercifully brief. I hope you will read it.

My oral testimony will consist solely of quotations of statements from that document, to which I wish to give particular emphasis. While the views I hold stem from discussions with my fellow businessmen and the economists associated with the Committee for Economic Development, I accept sole responsbility for this statement.

First, I would like to emphasize the importance with which we in CED regard the work of your committee and the President's Council of Economic Advisers.

We have high hope that the result of your work and that of the Council will be the development of a coordinated and progressive program of measures designed to meet the responsibilities of the Federal Government for a more stable and prosperous society.

I would like to say, Senator, that I sincerely believe that the work of this joint committee may affect not only our own economy but the world economy in a most significant manner.

CED defers to no one in the pride we take in the accomplishments of our American brand of capitalism and in our determination to help

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preserve and strengthen it. We believe that the best way to fortify our system against either frontal or flank attacks is by capitalizing to the fullest extent on its potentialities for the advancement of all of our people. We should remember that there are still too many people whose incomes are low, whose opportunities are limited. We should also remember that the ultimate test of any economic system is what it produces for the average man. Therefore, our answer to the critics of capitalism should not emphasize past accomplishments, but rather should take the form of a plan of action for so improving the effectiveness of our system that it will yield ever-increasing opportunities for more and more of our people. Before we can determine upon that plan, we should take a long, hard look at our system to find out what makes it tick——

Senator O'MAHONEY. You say we ought to plan something.

Mr. HOFFMAN. Definitely.

Senator O'MAHONEY. Do you mean a planned economy?

Mr. HOFFMAN. Definitely not.

Senator O'MAHONEY. How are you going to have a plan without planning?

Mr. HOFFMAN. Sir, if you had had an opportunity to read this document before you came in there might have been a partial answer, but if I might go along I think you will see it.

Senator O'MAHONEY. I am sorry. I did not have an opportunity to read it.

Mr. HOFFMAN. Before we can determine upon a plan we should take a long, hard look at our system to find out what makes it tick, what has made it strong, what its weaknesses are, and how they can be corrected.

In my statement I mention that the first major characteristic of our economy is its dynamic productiveness, and the second—and this has been its greatest weakness—is its instability. I indicate why our economy has been dynamic and why it has been unstable and then outline briefly how we should go about developing a program aimed at protecting and enhancing its dynamic productiveness and moderating its tendency toward booms and busts.

Senator O'MAHONEY. And your problem will be to show us when it is a program and not planned, and when it is planned and not a program.

Mr. HOFFMAN. That I will be glad to do.

The CHAIRMAN. I do not object to a planned economy if you do not regulate it after you plan it. It is more the regulation of the plan. I always believe in planning, but how far should the Government regulate?

Mr. HOFFMAN. We all have to plan. The Government has to plan, business has to plan, we have to plan our individual lives, but there is a vast difference between planning and a planned economy.

Senator O'MAHONEY. I think we should get that point clear because there has been so much irresponsible talk about a planned economy, because many times we do not see the difference between constructive planning and regimentation.

Mr. HOFFMAN. I think that is a very excellent point, and I would go right along with you, and I think that perhaps picking out and determining that difference is one of our biggest tasks.

At this point I should like to emphasize particularly that the dynamism of an economy depends substantially on the extent to which the potentialities of its citizens are realized, upon how much use is made of their natural inventiveness and resourcefulness, and upon how well they work together. We in the United States have outstripped the world in productiveness because our economic system subjects us to pressures that have made us, as individuals, work hard, think hard, and work together quite well. We have worked hard and thought hard because there have been rich rewards for so doing, and mild penalties for inaction.

On the question of instability, I want to emphasize the psychological factors involved. Maintenance of market demand is not only dependent upon the availability of money but also on willingness to spend. Any program that fails to consider the need for giving individuals confidence in the continuity of their income and businessmen confidence in the prospects for continued profitable operations cannot be effective.

I also make a point of the fact that while we are seeking for measures to minimize the instability of our economic system and thus correct its weaknesses, we must constantly keep in mind that its strength lies in its natural lusty vitality. That we must not lose. Otherwise, we may end up with a stabilized poverty so characteristic of the tired, regimented, Old World economies.

At this point comes the $64 question. What kind of a program can we get in motion that will provide dynamic stability? The complexities of the problem are such that it cannot be solved by magic, by a simple formula, or by one cure-all. It will take the collective wisdom of all of us—government, business, labor, agriculture, and the educators—to help us work our way toward our goal. Nevertheless, complex though the problem is this much is clear—and this I would like to double underscore—that the fluctuations in the volume of business stem from activities of men; therefore, if men act more sensibly, the fluctuations can be moderated. There is no excuse for either violent booms or busts. The notion that that they are inevitable or unavoidable should be utterly rejected.

Now is the time when we should intensify our efforts to achieve dynamic stability; we should not wait either for that much-advertised recession, or for that big depression which is being so freely predicted for the early 1950's.

As we examine measures aimed at strengthening our system and correcting its weaknesses, we must consider particularly how they affect our citizens as individuals. Our economic system has a responsibility beyond that of efficiently carrying on trade and commerce. It must add to rather than subtract from the opportunities for the individual to make full use of his capabilities and for his maximum growth and development, socially, intellectually, and spiritually.

In my opinion, as I have previously stated, the maintenance of dynamic stability is a responsibility shared by all participants in our economy—jobholders, job seekers, employers, labor leaders, farm leaders, and by every one of us jointly through our local, State, and Federal Governments. Because of its importance, I shall deal first with the role of government, especially the Federal Government, and then with the part that businessmen can play in achieving economic progress and stability. The responsibilities of labor groups, farm groups, and others I shall not develop in detail.

On the subject of employment, I point out in my statement that Government's role in the economy as a direct employer is and should be a minor one. A Government guaranty of jobs for all might lead to state socialism which would wither the independence, the initiative, and enterprise of the individual which have made this country great. Nor is it the proper function of government in peacetime to intervene in competitive pricing, wage negotiations, or production.

The most vital function of Government is to establish conditions under which private enterprise can operate most effectively. In this area, it is my opinion that Government should do all it can to vitalize competition.

It is a primary responsibility of Government to stamp out practices that restrict competition; to provide information and assistance that will improve the quality of decisions by business, particularly small business; to establish conditions that stimulate inventiveness and the assumption of business risks. Business, labor, agriculture, and Government have too often directed their planning against competition for the protection of special interests. In the last 15 years especially we have learned by experience that monopoly power in private hands of either business or labor is dangerous, and that even under Government supervision it is not safe. We need to plan for competition. The growth and vitality of our system depends on wide-open opportunity for entry of new business and expansion of existing business whenever production and employment can be increased.

On small business, full opportunity for new and small business is especially important.

On Government expenditures: The volume of Government expenditures has a most important bearing on our economy. In my opinion every possible effort must be made to increase the efficiency of Government operations, to economize as carefully as businesses and individuals do in their own affairs, and to avoid unwarranted hand-outs.

We repudiate Government spending for its own sake under any circumstances.

The timing of postponable expenditures for needed public works and for other essential purposes does, however, offer some opportunity for moderating booms and busts.

But public works cannot be relied upon solely, or even mainly, to maintain stability.

In regard to taxation I urge that we work toward stabilized tax rates. Stabilized tax rates and current collection bring in a high volume of tax dollars in periods when inflation threatens and a low volume of tax dollars in periods of depression. Thus, stabilized tax rates are automatically countercyclical in their influence on the economy.

There is, of course, a larger section dealing with taxes.

On the subject of unemployment compensation I also advocate the extension of unemployment compensation as far as practical to all workers. Unemployment compensation gives people the confidence in continuity of income which is so essential to the achievement of greater stability in our economy.

On the subject of monetary and credit policies, I say there are many billion-dollar questions, the answers to which are still obscure, but it would seem desirable and possible to reduce the cyclical expansion and contraction of money and credit, and even, perhaps, to change it to a countercyclical pattern.

On the subject of foreign trade: As to foreign trade, I set great store in the resumption of free trade between nations. I think we should seek to attain that objective as quickly as possible. It is my opinion that we must take an active part in the reconstruction of Europe. If we do nothing and wait for the world to fall apart you can rest assured that Russia will be there to pick up the pieces. But the greatest single contribution which the United States can make to world prosperity is to remain prosperous ourselves.

As to agriculture, I rely solely on Chester C. Davis, Vice Chairman of the Research and Policy Committee of CED, and in my statement I quote from his testimony before the Agriculture Committee of the House of Representatives June 7, 1947. I should like to draw attention to the fact that one very important point which Mr. Davis makes is in regard to the interdependence of the various segments of our economy. "It is impossible to consider agriculture by itself," Mr. Davis says. "All of our interests are woven in a tight, complicated, fast-moving economy."

On the subject of industrial peace, in which, of course, management has great responsibility, I recall attention to the CED statement entitled "Collective Bargaining—How To Make It More Effective," which was issued in February of this year. Copies of that statement are available to anyone who wants them.

Now, as to the responsibilities of businessmen I should like to list the following which I covered in more detail in my prepared statement:

(*a*) The primary responsibility of a businessman is to operate his business profitably.

(*b*) Operating profitably requires constant efforts to increase efficiency and lower costs.

(*c*) Businessmen must push forward the search for new products and services.

(*d*) Businessmen should exercise scientific control of sales expenditures.

(*e*) Every employer should regularize employment to the greatest extent possible.

(*f*) Businessmen should avoid unnecessary expansion of inventories and launching of capital expenditures in boom times.

(*g*) Businessmen should look to the long run in their pricing policies.

(*h*) Participation in a sound program for industrial peace is a responsibility of employers.

(*i*) It is the responsibility of every business leader to provide conditions which will encourage the growth and development of those associated with him.

Next in my statement I discuss short-run measures to cope with boom or depression. I should like to emphasize the fact that in dealing with the problem our main reliance should be on built-in dynamism and built-in stability. These should be supplemented by definite permanent policies in regard to public works and other deferrable expenditures and in regard to money and credit.

Only by adopting these basic measures and policies can we avoid the need to improvise in emergencies. Such improvising is dangerous. Emergency remedies are likely to be half-baked measures which fail to work as expected and which hamper rather than help full recovery and future progress. Only by achieving the maximum of built-in dynamism and built-in stability can we minimize the need for reliance on fallible human forecasts.

On measures to restrain further inflation I also call attention to the measures which CED recommended in its policy statement last fall, a copy of which is available. There are some seven or eight specific recommendations.

On measures to counter deflation: In discussing measures to counter deflation, I state that we should not get the jitters at the first signs of any slackening in demand. We should be careful also not to overcorrect.

Above all, we should beware of restrictive policies designed to protect special groups from the rigors of competition at the expense of the public.

Government should take the steps I have already indicated in my discussion of the basic policies required for dynamic stability. In particular, I refer to the fiscal and monetary policies appropriate in depression, including easing of restrictions on credit, and the prompt execution of previously made plans for public works.

In addition, there are certain special measures appropriate to counter a deflation if it comes in the near future. These include:

1. Reduce tax rates immediately so that the cash consolidated budget would be in balance at a high level of employment, if this has not already been accomplished.

2. Liberalize or eliminate any remaining restrictive controls on production, trade, or credit.

3. Accelerate the stock piling of strategic war materials.

These lists of special measures to combat inflation and to counter depression are short. They should be short. We cannot protect our economy by repeated emergency measures.

Beyond the measures which I have discussed there is need for intensive research by Government, educational institutions, and private groups on problems for which the answers are still obscure. The shockingly small amount that has been spent on fundamental economic research is a national disgrace.

We need not only to encourage economic research but after we get the facts we must be willing to face them if we hope to achieve our goals. We must give up trying to use slogans, clichés, and views based on prejudice as answers to tough economic questions.

In concluding this testimony I would like to shift from discussing problems to discussing prospects: In the first instance, the prospects for achieving stability. In a free economy we can never have absolute stability. However, by adopting appropriate measures of the type I have discussed we can, I believe, hold the swing between the peaks and valleys to perhaps 15 to 20 percent.

We can live and prosper with that. We cannot live with fluctuations such as that which took place between 1929 and 1932, when business volume dropped more than 50 percent. Another collapse of that magnitude might cost us our free economy.

Now, as to the prospects for further progress. If through wise action we can make our economy operate more effectively, the real income of most of our people can be doubled within 25 years. We can largely realize the age-old dream of abolishing poverty. Most important of all, on this material foundation we can build conditions which will provide not only equality of opportunity but certainty of opportunity for every man, woman, and child in this country.

The CHAIRMAN. Mr. Hoffman, have you any views about the present situation, as to whether there are distortions in the present set-up of wages, prices, or otherwise, which are a threat to the maintenance of stability?

Mr. HOFFMAN. Yes; I think there are obvious distortions.

Mr. CHAIRMAN. What, in particular?

Mr. HOFFMAN. I think we have distortions in prices. As we all know, food prices are very high. We have distortions in certain other price areas. We do not have the balance that we will have to find before we achieve stability.

Six months ago I would have guessed that one of three things might happen to us in 1947.

First. We might have quite a sharp recession; that was a possibility.

Second. We might have a continued upward swing, continued inflation.

Third. We might have a shakedown of the economy which would bring prices in balance.

Today I think that the third alternative has come to pass. In other words, I think we are in the process of a shake-down.

I believe by the end of the year that while business may be at a somewhat lower level than it was in the final quarter last year, we will be in much better balance. I personally do not believe we are going to see that sharp recession which so many people predicted.

The CHAIRMAN. Dealing with commodity prices—you said "food" but I think probably the same difficulty arises with most commodity prices, food or otherwise, except perhaps a few that are more or less held down, perhaps, like copper; but do you see in a list of actions to restrain further inflation the only thing that seems to effect that, which would be to limit so many essential exports to foreign countries except of goods in full, adequate supply? You, of course, feel, therefore, that we have to continue the Export Control Act or an export control policy?

Mr. HOFFMAN. Yes, sir.

The CHAIRMAN. We are faced now apparently with a very short corn crop and threats of higher prices in corn and products of corn, like livestock and meat. Is it your suggestion that that field, therefore, be limited more than wheat, where there is plenty of wheat?

Mr. HOFFMAN. I would not consider myself competent in the agricultural field. I always have to ask Mr. Davis about that one.

The CHAIRMAN. Well, what I was wondering is whether if the prices are too high now and we are faced with higher prices in certain fields, do you see anything else to be done by Government other than limitation on exports?

Mr. HOFFMAN. Sir, I have with me Mr. Yntema and Mr. Myers. Mr. Yntema is director of research for CED, Mr. Myers associate director. Mr. Yntema may have some suggestion if it is agreeable with you to call on him.

The CHAIRMAN. Yes.

Mr. YNTEMA. One thing that is now happening is the enormous cash surplus in the Federal Government which, of course, is one of the strongest defenses against inflation.

There is also the possibility of some restriction in the expansion of private credit, largely by indirect influence of the central banking system, an encouraging recognition of the means of checking loans.

The CHAIRMAN. Is there any danger of excessive expansion of private credit, of loans, of bank loans, for instance, first?

Mr. YNTEMA. Well, there has been a large increase in private credit. It is very hard to say it is excessive. That is, any increase of private credit contributes, of course, to expansion, but the question is what the criterion for excessive would be.

The CHAIRMAN. I do not see any indication that it has reached the point of any unsound lending or lending that is unsound.

Mr. YNTEMA. Of course, any expansion of credit leads to it.

The CHAIRMAN. What about consumer sales on the installment plan?

Mr. YNTEMA. That, of course, has been increasing rapidly.

The CHAIRMAN. What would Mr. Hoffman consider to be that? This regulation W that was testified to, I think Mr. Colt thought it should be continued. Other bankers apparently disagree with him.

Mr. HOFFMAN. Of course, everyone in the automobile industry thinks it ought to be abandoned quickly except perhaps myself.

The CHAIRMAN. How do you feel about it?

Mr. HOFFMAN. Well, I don't see why we should loosen up on credits in the installment field at this time. I think they ought to be maintained temporarily.

Senator O'MAHONEY. Why do you think they ought to be maintained?

Mr. HOFFMAN. Because installment credit is a great inflationary force and this is a period——

Senator O'MAHONEY. Is the fact that the automobile industry is not in position to produce as much as the market demands a factor, does that have a bearing on it?

Mr. HOFFMAN. It might influence my judgment, Senator. I don't think so, but it might. I would grant the possibility of that.

Senator O'MAHONEY. Why shouldn't it influence your judgment?

Mr. HOFFMAN. I don't think it should. I think we ought to be able to make our own judgments on policies of that kind, irrespective of personal interest.

I think that the control, regulation W, worked out well during the war and the postwar period in deferring demand. However, there are very strong arguments that have been made here against regulation W because it restricts the ability of people of lower incomes to acquire durable goods in a period such as the present when they are in short supply.

The CHAIRMAN. In the long run it is what it costs you per year. If you cannot afford it, you ought not to have it, I suppose.

Mr. HOFFMAN. As I say, I have listened to all the arguments against temporarily maintaining regulation W and they have not convinced me. I still believe it unwise for individuals to take on large obligations now.

Senator O'MAHONEY. That is a pretty good philosophy, Mr. Chairman, if you cannot afford it you shouldn't have it, but it has a double edge, I think, particularly when we are endeavoring to stabilize the economy so as to produce mass consumption. If industry were to be guided by this principle, that only those who can afford to buy, who can afford to pay cash should have what industry can produce, there wouldn't be very much production, would there?

Mr. HOFFMAN. I will have to think that question over. Would you mind repeating it, Senator? I didn't get it.

Senator O'MAHONEY. I say if industry had to depend for its market upon those who are able to pay cash there wouldn't be a mass market for a mass-production industry.

Mr. HOFFMAN. I think that installment credit has been a very substantial factor in building up the durable-goods industry. The question is one of how and when credit should be liberalized.

Mr. PATMAN. How many products are affected by regulation W now? About a dozen?

Mr. HOFFMAN. I wouldn't know that, Mr. Patman. I know the automobile industry is.

Mr. PATMAN. Jewelry and radios.

Mr. HOFFMAN. Jewelry and radios.

The CHAIRMAN. Of course, it doesn't abolish sales on credit.

Mr. HOFFMAN. That is right.

The CHAIRMAN. It simply regulates the extent to which that credit may be extended.

Mr. PATMAN. On purchases of $2,000 or less.

Mr. HOFFMAN. I happen to believe that we ought to bring all the countercyclical influences into play in this credit field for two reasons. One, I think it puts a check on the economy. Second, I think history clearly shows that the credits that prove to be unsound are those accumulated in periods of boom. Credits that you give in times of depression almost always are good credits. I don't think we have come anywhere near exhausting what can be done to bring about countercyclical policies in the field of credit. This would include installment credit.

The CHAIRMAN. If you have, say $5,000,000,000 as you view it it is not inflationary to keep on reducing that.

Mr. HOFFMAN. Right.

The CHAIRMAN. What is inflationary is if you have $5,000,000,000 and run it up to ten over a short period of time.

Mr. HOFFMAN. That is right.

The CHAIRMAN. That is the danger situation and that is where if you have in effect a restraint of the character of regulation W it would enable you to check that particular expansion.

Mr. HOFFMAN. The social factors also, I think, are important because if you are issuing credit loosely in times of boom—it is always a temptation—then the repossessions hit most heavily on those who can least afford the losses and it is not good for social reasons. In other words, any policy that leads to any substantial volume of repossessions is an unsound policy.

The CHAIRMAN. And, of course, you have the very restraint on the purchase of stock in the stock market, another credit control.

Mr. HOFFMAN. Yes.

The CHAIRMAN. Besides the general control of bank credit through the control of reserves and open market policies.

Mr. HOFFMAN. We should also try to encourage the purchase of Government bonds, E and F bonds, on the part of our employees. I think that is a very excellent idea.

The CHAIRMAN. Isn't it possible if you run into sharply higher prices for corn that there are means by which the Government can divert the demand from corn to other products that are more plentiful? Of course you can if you control the export of it. Is there any other way?

Mr. HOFFMAN. I would not feel competent to answer that question. I would say offhand, though, that the law of supply and demand will come in and people will eat oats if corn is too high, or switch from cornflakes to oatmeal.

The CHAIRMAN. The price is to a certain extent a regulator in itself?

Mr. HOFFMAN. Certainly. I think we overlook the tremendous influence of prices as a regulator.

The CHAIRMAN. Do you have any questions?

Senator O'MAHONEY. Yes, Mr. Chairman.

First may I say that Mr. Hoffman, I think, has presented a very excellent and thought-stimulating paper. I think and believe that the wider the publicity that your statement and that of the CED gets the better it will be for all of us. There were several interesting references which I should like to discuss with the witness. First of all I noted with a great deal of personal satisfaction your statement that we need to plan for competition—and that, I take it, means, as I think you have said, that we ought to eliminate directly the progress of economic concentration in industry and Government.

Mr. HOFFMAN. That is right.

Senator O'MAHONEY. Now, with that point of view I completely agree. That was one of the principal recommendations of the old TNEC, as I think you know.

Mr. HOFFMAN. Yes, sir.

Senator O'MAHONEY. There was a plan but very little has been done about maintaining competition. What would you do, what do you recommend to the Congress to plan for competition?

Let me say first, that as you were reading your statement about taxes, my mind went back to the fact that an analysis of income tax returns of several years ago showed that about 1½ percent of all the reporting corporations owned about 51 percent of the income, which was a tremendous concentration. Now, what are we going to do about competition and the plan for competition?

Mr. HOFFMAN. In the first place, Senator, I consider you one of the world's great experts in this field.

Senator O'MAHONEY. That is covering a lot of territory. This is not an agricultural committee, so leave the butter out.

Mr. HOFFMAN. I am speaking very truthfully when I say that. You are in Government and anything that I offer in the way of advice is probably superficial. However, as you have invited comment it has never seemed to me that there was any particular order of planning in the way Government proceeded in the antitrust field. It has been hit and miss, and in industry there has been quite a little suspicion that the hitting is not always for the purpose of preventing monopoly.

I think one of the first things needed is a very well-ordered program which has the approval of the top people in Government and which therefore can have continuity.

Senator O'MAHONEY. I am with you when you say that because obviously the antitrust law depends for its execution, for enforcement of the act and enforcement of its provisions depends upon two factors:

First, the willingness of Congress to appropriate the money that will enable the Department of Justice to make the investigations which are necessary; and, second, the will of the Attorney General who happens to be in power to pursue, to use your word, a dynamic policy. I agree with you that we should adopt, if we can, a preventive policy. Our trouble is to find out what that preventive policy is.

One of the recommendations of the TNEC was that we should amend the old Clayton Act by closing the loophole which appeared in that act when the Supreme Court by a 5-to-4 decision on two or three occasions held that that law did not prohibit mergers of competing concerns by the purchase of the assets of the concern, though it did prohibit merger by the purchase of stock.

Mr. HOFFMAN. Well, I can only repeat that looking in from the outside as a businessman, and I am not speaking now in any capacity other than in my own individual capacity, as long as I can remember, it seems to me that the administration of the antitrust laws have been capricious rather than orderly or dynamic.

Senator O'MAHONEY. That is right. I think there is no doubt it.

Mr. HOFFMAN. Furthermore, there has been no clear understanding by business as to what constitutes monopoly.

Senator O'MAHONEY. I think it is proper to say here, if the chairman will permit me, that under the Presidency of his father there was a very active prosecution of the antitrust laws, and I think that President Taft did not receive the credit that he deserved for what he did in that field. Nevertheless, it is sometimes active and sometimes extremely inactive.

Mr. HOFFMAN. The only word I know for it, as I have already stated, is "capricious," and I think the remedy is obvious. And the responsibility rests with government. Action is needed because capitalism without competition does not serve the people well.

Senator O'MAHONEY. You want this committee and the Congress and the reporters here to understand that you stand forthright for maintenance of competition and against monopoly in industry and in government?

Mr. HOFFMAN. I have been trained in competition, sir, in the automobile business. There is no monopoly there that I know about.

Senator O'MAHONEY. But the answer is "Yes," is that right?

Mr. HOFFMAN. The answer is "Yes."

Senator O'MAHONEY. I just want to get that into the papers if I can.

Mr. HOFFMAN. May I add this, that I think one of the problems we have to deal with is to make certain—and this, I think, gets into the tax question very quickly—is to make certain that there is an excellent opportunity to go into business and to grow in business.

We do not want to spend too much time on this point, but it has been difficult to stay in business not alone because of monopoly, but because of other factors that bear down heavily on little businesses that want to grow big.

Senator O'MAHONEY. Mr. Colt testified yesterday that in his opinion prices of agricultural commodities since 1939 have risen about 180 percent, whereas prices of industrial products had risen only 62 percent. Would you assist in determining what the explanation of that disparity might be? Is it your experience that there is that disparity?

Mr. HOFFMAN. Yes; I think you get the answer in the fact that in the durable-goods field you do have what is called administered prices.

In the agricultural field prices are determined in the main by supply and demand at the moment. Sometimes they work favorably for agriculture, sometimes unfavorably. In the durable-goods industry we have the opportunity to decide whether we want to make the long profit for a short time or perhaps make a short profit for a long time.

Senator O'MAHONEY. When you have administered prices you have a system of price planning, do you not?

Mr. HOFFMAN. You make the plan, but you also have to compete. In other words, the answer to your question today is yes; today almost any automobile company can determine for itself what it wants to ask for its product and within reason get that price, but in normal times the discretionary area for prices is very restricted. It is usually within a very, very narrow range.

Senator O'MAHONEY. Who determines the range that is within reason?

Mr. HOFFMAN. The general public through competition.

Senator O'MAHONEY. And how does the automobile industry as a whole come to the conclusion that prices should be held to certain levels?

Mr. HOFFMAN. As an industry there is no industry action, I can assure you of that.

Senator O'MAHONEY. There is no representative of the Department of Justice here.

Mr. HOFFMAN. No.

Senator O'MAHONEY. And I don't think there is any official cognizance being taken of what is said in this meeting.

Mr. HOFFMAN. In our industry there are no discussions between companies. That is a decision that each company makes.

I don't want to name companies, but today there are some that are charging pretty high prices for their products and they have that option because in this sellers' market the range for discretion is several hundred dollars—but normally the range is perhaps $50. We may decide we can sell this car for $50 more or that much less, but that is as far as one dare go.

Senator O'MAHONEY. It is a fact, is it not, that the motor industry as a whole is guided, with respect to price and distribution, by the principle that prices should be held within reason so that in the long term there would be stabilization for years to come?

Mr. HOFFMAN. The automobile industry was investigated by the Federal Trade Commission in 1937 and they found that the average profit per car was $27 and quit investigating us.

Senator O'MAHONEY. I am not trying to determine what your price was or whether you should be investigated, Mr. Hoffman. I am merely trying to develop the basic facts because it impresses me from what has been said here, and from private conversations, that in the motor industry you have a degree of administered prices.

Mr. HOFFMAN. That is right.

Senator O'MAHONEY. And you also have a quota system whereby the cars are distributed to your dealers upon some previous base record. Isn't that correct?

Mr. HOFFMAN. You mean now?

Senator O'MAHONEY. Yes.

Mr. HOFFMAN. Yes; that is right.

Senator O'MAHONEY. That is right. In other words, there is a shortage in the motor industry as a whole and I grant you that the motor industry is a reasonably competitive industry, I think it has been a very competitive industry. But in motor industry you have in effect a price ceiling on cars and you have a quota system, isn't that right?

Mr. HOFFMAN. Yes, we have and I do not quite see the relationship between the two. I think we have an abnormal situation today where we have to allocate rather than sell cars to our dealers.

Senator O'MAHONEY. Of course, it is only in abnormal situations, I suppose, that such a thing can be done.

Mr. HOFFMAN. That is right.

Senator O'MAHONEY. But it was only in an abnormal situation that the country imposed controls of various kinds during the war.

Mr. HOFFMAN. That is right.

Senator O'MAHONEY. And now one of the questions that confronts us is to what extent the war controls shall be maintained. Congress has just passed a rent bill, some people have called it a rent-decontrol bill, but that is just sparring for words you understand. And we are talking about controlling exports; there is a very strong feeling, for example, that the business corporation which deals in oil should not be free to sell that oil wherever it pleases in the world but should be compelled by the Government not to sell it. That is regimentation, isn't it?

Mr. HOFFMAN. It certainly is control.

Senator O'MAHONEY. It is not at all unlikely that this Congress may express its opinion by imposing a rather severe control upon exports, so our problem is to determine how much these controls should be and where they should be exercised and why. Have you any expression of opinion upon that?

Mr. HOFFMAN. Of course, we have been under export control up to now.

Senator O'MAHONEY. Surely.

Mr. HOFFMAN. We are allowed to export the same percentage of our output that we were exporting in the prewar years and so I do not know whether your question is aimed at perhaps a tightening of those controls. It is not clear in my mind.

Senator O'MAHONEY. I am not asking you with any purpose in mind to prove anything, Mr. Hoffman.

Mr. HOFFMAN. I just don't know.

The CHAIRMAN. The necessity arises because we are freely distributing dollars of credit and gifts and in every other way to the whole world, so freely that we have at least to tell them what they can take with those dollars.

Senator O'MAHONEY. That is right.

The CHAIRMAN. That is the reason for the necessity of the continued controls I think.

Senator O'MAHONEY. We are giving them our goods and we are paying for them ourselves out of our debts. But my questions were suggested because of the statement in your recommendations:

> Liberalize or eliminate any remaining restrictive controls on production, trade, or credit.

The CHAIRMAN. That is only in case of depression.

Mr. HOFFMAN. That is in case of deflation.

The CHAIRMAN. That is in case of deflation.

Senator O'MAHONEY. That is right. And you do not want it under the circumstances that we now have?

Mr. HOFFMAN. I would say if we had deflation the question of liberalizing those controls should come up. In other words, if we had a surplus capacity and inflation was not threatening us and there was an export demand, I would like to see those controls eliminated or liberalized. I frankly would like to see the restoration of a free international market at the earliest moment. I do not think it is practical now.

Senator O'MAHONEY. I was going to ask you some questions about the relationship between a free market and management in connection with the comparison that was made by Mr. Colt of agricultural prices and industrial prices.

I noticed all through your paper when you refer to business you refer to business in the individual line—businessmen should not do this and businessmen should not do that.

Isn't it true that the characteristic businesses of our time are run by managers rather than the owners? In other words, management speaks for stockholders who are themselves the owners but who do not run the great businesses of the country?

Mr. HOFFMAN. Of course, a large segment does, Senator. However, I think that there are something like 3,600,000 businesses in this country. About 3,300,000 of these are small businesses that are run by proprietors. They include all of the trades and services and some manufacturing, and I do think that there is much that that group can contribute. They provide 45 percent of the employment in this country.

Senator O'MAHONEY. I have in mind a very instructive pamphlet that was issued by the CED shortly after your operations began, which pointed out that while there are a great number of businesses in the country a very small fraction of the number account for most of the employment. You recall the statistics? I do not have them in mind at the present time.

Mr. HOFFMAN. About 55 percent of the employment is in the hands of the larger concerns but that includes all concerns with 50 employees and up. In other words, it is quite true that management does employ and those managed enterprises do provide a very substantial percentage of our employment.

Senator O'MAHONEY. What I am leading up to is this: Do you or do you not believe that the fundamental task of our society and of government is to find a method of adjusting the managed business with the individual business? Now, you spoke a moment ago of the difficulty of the little businessman to stay in business.

Mr. HOFFMAN. That is right.

Senator O'MAHONEY. There are plenty of opportunities to start a business but it is with difficulty that he can stay in business.

Do you think that it is the difficulty of competing with the large managerial concerns that constitutes the biggest impediment?

Mr. HOFFMAN. Well, that is a two-way street. I think in some cases, of course, the smaller businessman when he starts out, if he is in an industry such as manufacturing in which capital investment plays a very large part, is at a disadvantage with the established businesses and has a tough uphill battle.

But big business creates opportunities for and is dependent upon small business. We are a very small firm compared with General Motors, Chrysler, and Ford. But we have over 400 suppliers who are more or less small businessmen. We have throughout the world perhaps 5,000 dealers, small businessmen; so there is an interdependence between the smaller units and the bigger units. As a whole the automobile business has created opportunities for tens of thousands of small businessmen.

Even though big business has created opportunities for small business, it is a fact that smaller enterprises face certain problems that should be recognized and met.

One of those is, quite obviously, that of getting equity capital, even though management has proven its competence. A small businessman, even if he is a great success, has a very tough time getting it on reasonable terms.

Senator O'MAHONEY. Do you think we ought to give some attention to that in the tax laws by imposing a more reasonable tax rate upon profits which are derived from the investment of equity capital in independent competitive businesses?

Mr. HOFFMAN. Well, I think you would have a problem of administration there if you had a situation of that kind.

Senator O'MAHONEY. I am speaking of the principle.

Mr. HOFFMAN. I think the greatest problem that the small businessman faces is this: The general public concept is that business and industry pay taxes. Strong, established business does not. It passes them on to the public. But new, small business often does not do so. It fails to include this tax as a part of cost and wakes up to find a high percentage of the earnings counted upon to provide capital for expansion owed to the Government. I personally doubt if we would have a free economy today if we had had a 38-percent tax on business during the past 50 years.

Senator O'MAHONEY. On that basis let us assume that we reduced taxes right across the board, would that change the relative position of the little fellow trying to grow bigger?

Mr. HOFFMAN. Oh, sure.

Senator O'MAHONEY. The big man gets the same benefit, too?

Mr. HOFFMAN. He does not get the same benefit.

Senator O'MAHONEY. Let us take a specific case. I won't ask you to answer this question, but when Kaiser and Frazer were trying to get into the automobile business and a man by the name of Tucker, too—

do you suppose the reduction of taxes without any variation, to favor investment in new, independent enterprises——

Mr. HOFFMAN. It would not help him a bit.

Senator O'MAHONEY. It would not help him a bit?

Mr. HOFFMAN. Not a bit. They are not making any profits.

Senator O'MAHONEY. That illustrates the difficulty of getting into any business field at the present time, doesn't it? Mr. Sulzberger of the New York Times was quoted the other day as saying that anybody can go to New York and start a newspaper in competition with the New York Times, but I think it would be a little bit difficult, wouldn't it?

Mr. HOFFMAN. Yes; it is difficult to break into the automobile business, and I know all about those difficulties and how they affect our cost because certainly, Senator, we have tried to break in. It can be done but a situation of that kind on taxes doesn't enter into it to any extent because you have got to first make some profits.

Senator O'MAHONEY. Well, you do agree that in the first place we should plan to maintain competition?

Mr. HOFFMAN. Definitely.

Senator O'MAHONEY. And, in the second place, we ought to revise our tax laws so as to encourage the opportunity for investment of equity capital.

Mr. HOFFMAN. Right.

Senator O'MAHONEY. How that will be done is another question.

Mr. HOFFMAN. The question of method I would not be prepared to pass on.

Senator O'MAHONEY. There was another point here that I marked as you were going through. On the bottom of page 5 of your original statement you said:

> While we are seeking for measures to minimize the instability of our economic system, and thus correct its weaknesses, we must constantly keep in mind that its strength lies in its natural lusty vitality. That we must not lose. Otherwise, we may end up wih a stabilized poverty so characteristic of the tired, regimented Old World economies.

Would you amplify your thought about this lusty vitality?

Mr. HOFFMAN. Sure. I think that there have been in the past measures passed that perhaps might have given us greater stability but would have resulted in just the situation I describe here, and I will put first in the list the NRA.

The NRA was a very appealing program to many people because it brought the Government into the picture controlling competition; it controlled production, controlled prices, but the end result of the operation of the NRA would have been nothing other than a regimented socialistic economy. Similarly, it is just as dangerous for the Government to step in here and say, "It is a nice idea for everybody to have a job at high wages; therefore, the Government will guarantee everybody a job at high wages." Such a guaranty might also lead to national socialism.

Senator O'MAHONEY. I agree with you.

Mr. HOFFMAN. As we try to get these measures which will bring on stability we have got to recognize that we don't want stability at the price of vitality. The English system is a perfect example of a system that was stabilized through cartels, through deals between management and labor, and it ended up so anemic that it served the people so ill that they tossed it out.

Senator O'MAHONEY. You anticipated my very next question, and I am glad you pointed that out. The NRA, as I see it—and I wonder if you will agree with me—operated on the theory of industrial self-government for the purpose of eliminating chiselers and others who made it a little bit more difficult for the groups to get what they thought they ought to get out of industry; isn't that right?

Mr. HOFFMAN. It would make a nice soft life for business.

Senator O'MAHONEY. You don't believe in it?

Mr. HOFFMAN. I don't believe in it.

Senator O'MAHONEY. You don't believe, then, in the controlled economy by a private association incorporated by government?

Mr. HOFFMAN. Less. If I had to choose between the two I will take the Government. I do not want either.

Senator O'MAHONEY. You want to recommend to Congress first that we take such steps as may be necessary, difficult though they may be, to maintain a free competitive enterprise, but if that cannot be done you would prefer to have the Government?

Mr. HOFFMAN. No; don't put that in. I do not prefer that except, as I say, the last resort.

Senator O'MAHONEY. That is what I mean.

Mr. HOFFMAN. I don't want to be quoted as wanting any truck with that at all.

Senator O'MAHONEY. I was just trying to repeat what you said.

Mr. HOFFMAN. You asked me if I preferred it and I said no, I do not.

Senator O'MAHONEY. I say if the other cannot be achieved.

Mr. HOFFMAN. Yes, that is right.

Senator O'MAHONEY. Is that right?

Mr. HOFFMAN. The other can be achieved, though.

Senator O'MAHONEY. Well, I hope so and agree with you that we ought to work for it. Are there any other questions?

Mr. HERTER. Might I ask one question?

Senator O'MAHONEY. Yes.

Mr. HERTER. Assuming that the cost of food is a very vital factor in connection with any stabilization program of the country, that works directly into labor costs and the possibilities of an inflationary spiral if we have shortages. Assuming again that this country is going to have to continue and perhaps accelerate a European program, would you favor maintaining a completely free market for agricultural products with which your dollars could compete on an even basis, or would you favor the same sort of control system and allocation?

Mr. HOFFMAN. I do not want to duck any question I feel competent to answer, but I am not an agricultural economist and I feel way out of my field when I try to answer that. As I say, when I get difficult questions in that field I call on Chester Davis and then I give his answers and I appear to be very wise, but I do not have any knowledge that gives me the right to answer that question.

Mr. HERTER. There is a question as to whether we might not run into some cross-current of Government control when we run into a temporary situation.

Mr. HOFFMAN. That is always possible, and every increase in food prices I think constitutes a very real threat because it so directly enters into the cost of living. Employees in turn demand higher wages without higher productivity and to meet higher prices, and then we are back in the spiral again.

Senator O'MAHONEY. Congressman Patman?

Mr. PATMAN. I would like to ask a few questions.

Mr. Hoffman, your statement is very interesting, and I agree with Senator O'Mahoney that it is stimulating. The question comes up here all the time about farm prices and industrial prices. The statement was made a little while ago that agricultural prices have increased 180 percent over the normal period prior to the war, and industrial prices have increased only 62 percent.

Don't you think that that is due to the fact that agricultural prices were so low during that period, were abnormally low, too low, and that although there are distortions in farm prices, yet we have got to have good farm prices in order to have other good prices, and we cannot pay our heavy national debt unless we have good prices and good wages; wouldn't you agree to that?

Mr. HOFFMAN. Yes. I just got through saying to Congressman Herter that I do not feel any competency at all in this agricultural field. Therefore, I would not want to express criticism of the prices because I don't know anything about it. I do know that farm prices are often too high and often too low. That is very marked.

Mr. PATMAN. Which ones are they?

Mr. HOFFMAN. I mean to say the swing. They swing much more violently than industrial prices. So when he said they were above industrial prices I do not feel that there was any criticism which he directed at the farm prices because they were at times lower, comparatively, than industrial prices. I think that someone more competent than I would have to answer that.

Senator O'MAHONEY. May I interrupt you, Mr. Hoffman? I understand Mr. O'Neal, the next witness, is in the room. Won't you come forward, Mr. O'Neal? They are beginning to talk about agriculture, so I think you ought to be within easy earshot.

Mr. O'NEAL. Thank you. Whenever you talk about agriculture I can hear it even way in the back.

Senator O'MAHONEY. Even when it is a whisper?

Mr. O'NEAL. Yes.

Mr. PATMAN. Take, for instance, Mr. Hoffman, you have an automobile. I presume it sells around $1,600?

Mr. HOFFMAN. Yes, sir.

Mr. PATMAN. Can't you say this, that the farmer should pay more than 800 bushels of corn for that automobile? You don't know, do you?

Mr. HOFFMAN. I don't know.

Mr. PATMAN. And you don't know whether 10 bales of cotton would be too much for a farmer to pay?

Mr. HOFFMAN. No.

Mr. PATMAN. The farmer, of course, has suffered a great deal. I presume they are enjoying the greatest prosperity now that they have ever enjoyed and I would certainly hate to see them go into a tailspin and into a depression on prices. In fact, I don't think, you see, that the economy of the Nation would be helped if he, too, would be harmed. In other words, if we were able to reduce prices 50 percent over the Nation on everything we would never be able to settle the national debt, would we? When we have to pay that much and we are considering prices, we ought to consider that debt, too, or we will never be able to pay that huge debt, unless we have good prices and good wages. You agree to that?

Mr. HOFFMAN. I agree with that.

Mr. PATMAN. Since Mr. O'Neal is coming on next, Mr. Chairman, I don't believe I care to pursue that line of questioning further.

Senator O'MAHONEY. Any other questions?

Mr. HUBER. I have one question, Mr. Chairman.

In view of the fact that most any manufacturer could have sold a revamped old car, a plain running old-line car, why did Studebaker go to the expense of bringing out this modern car?

Mr. HOFFMAN. I will be very glad to do a little advertising. Well, I will tell you exactly why we took that chance. Whenever you come out with a car that has new styling you are gambling. We decided that the time to gamble was when the market was so strong that even though the public did not like the style we could still sell all we built. On the other hand, if we happened to hit the jackpot, which we did, then we would have established a position as style leaders with the public that will stay with us and that will help sell our cars when we have a different market.

Mr. HUBER. I was just thinking that it was being sent out because, as you said, they will buy anything, but I think you ought to be commended for it.

Mr. HOFMAN. As far as I know all automobile people are building good cars. We took the gamble as a business gamble, because we need the spotlight more than General Motors, Ford, or Chrysler. We are offering a new car, we are trying to grow big and therefore we took the gamble.

Mr. HUBER. Competition is the life of trade.

Senator O'MAHONEY. Mr. Hoffman, I know the chairman of the committee, who was called to the long-distance telephone, would feel, as I do, that you have rendered a substantial contribution to this committee. They are very grateful for your appearance. Perhaps at some future time we may call you back again.

Mr. HOFFMAN. May I just say one final word?

Senator O'MAHONEY. No word before a Senate committee is final.

Mr. HOFFMAN. Well, I hope that the committee will give thought to this possibility, which I think is pretty real: I believe if we all do act sensibly that we can reduce future swings in business activity to 15 or 20 percent as against somewhere around 50 percent as in the past, which would ruin us. And I am glad this committee is working because this is the time to find the measures and appraise them and learn how to apply them, instead of doing a fire-fighting job 5 years from now or 4 years from now that won't work.

Senator O'MAHONEY. I am glad that you made that final statement, Mr. Hoffman, because it permits me to recall one of your best lines here today, namely, that this matter is not impossible and we should not act as though it were.

Mr. HOFFMAN. Thank you very much.

Senator O'MAHONEY. Mr. Hoffman, you may remain and question Mr. O'Neal if you like.

Mr. HOFFMAN. He has all the answers.

(Statement of Paul G. Hoffman before the Joint Committee on the Economic Report:)

For the record, I am Paul G. Hoffman, president of the Studebaker Corp. and chairman of the board of trustees, Committe for Economic Development. I am appearing at the request of the chairman of your committee on the question of developing gdovernmental policy to prevent or alleviate economic depressions. What I shall say stems in large part from discussions with the businessmen and economists associated with the research and policy committee of the Committe for Economic Development, but, unless otherwise stated, I accept sole responsibility for the ideas which I shall present.

The CED Research and Policy Committee is a group of businessmen selected by the trustees of CED and formed for study of the problem of maintaining a high level of productive employment within a free economy in this country. A list of the members of the committee is attached to this statement. We work with an advisory board of economists and other social scientists, and with a staff of specialists in various fields of economics.

During the 4 years of its work, the committee has had prepared and published nearly a dozen research studies bearing on various aspects of its special problem. Additional studies are in process. Under the CED bylaws, the authors of these studies are free to state their own views and the report, when published, is the sole responsibility of the author.

The committee of businessmen also prepare and publish, from time to time, statements of national policy in which they present their own recommendations for action which will contribute to sustained employment and production in an economy of freedom. Twelve such statements have thus far been issued and others are in process. I have drawn extensively from these statements in preparing my testimony. One such statement, "Toward More Production, More Jobs, and More Freedom", is, I believe, of particular interest in connection with the work of your committee and I have asked that copies be distributed to you. I shall be pleased to supply copies of the other policy statements and the research studies if you wish them.

Before going further with my statement, I wish to say that CED attaches great importance to the work of your committee and the President's Council of Economic Advisers. In the fall of 1945, we pointed out the urgent need for both bodies and recommended their immediate creation. We have high hope that the result of your work and that of the Council will be the development of a coordinated and progressive program of measures designed to meet the responsibilities of the Federal Government for a more stable and prosperous society.

CED defers to no one in the gratification we take in the accomplishments of our American brand of capitalism and in our determination to help preserve and strengthen it. We believe that the best way to fortify our system against either frontal or flank attacks is by capitalizing to the fullest exent on its potentialities for the advancement of all of our people. We should remember that there are still too many people whose incomes are low, whose opportunities are limited. We should also remember that the ultimate test of any economic system is what it produces for the average man. Therefore, our answer to the critics of capitalism should not emphasize past accomplishments, but rather should take the form of a plan of action for so improving the effectiveness of our system that it will yield ever-increasing opportunities for more and more of our people. Before we can determine upon that plan, we should take a long, hard look at our system to find out what makes it tick, what has made it strong, what its weaknesses are, and how they can be corrected.

The first major characteristic of our economy is its dynamic productiveness. Since the turn of the century one great invention after another—the automobile, the radio, the airplane, and numerous others—has given a start to new industries which have grown into giants. We have perfected the techniques of mass production, streamlined distribution, and modernized our merchandising. We have seen the income of the average American family doubled, and for the second time in a generation the dynamism and high productivity of American industry have proved a decisive factor in winning a world war.

The second major characteristic of our economy—and this has been its greatest weakness—is its instability. During the past 100 years there have been no less than 26 business depressions, culminating in the boom of the 1920's and the bust of the 1930's.

I propose to give you my ideas as to why our economy has been dynamic and why it has been unstable, then to outline briefly how we should go about developing a program aimed at protecting and enhancing its dynamic productiveness and moderating its tendency toward booms and busts.

Assuming adequate natural resources, the dynamism of an economy will depend substantially on the extent to which the potentialities of its citizens are realized, upon how much use is made of their natural inventiveness and resourcefulness, and upon how well they work together. We in the United States have outstripped the world in productiveness because our economic system subjects us to pressures that have made us, as individuals, work hard, think hard, and work together quite well. We have worked hard and thought hard because there have been rich rewards for so doing, and mild penalties for inaction.

Next, let us consider the question of why our economy has been unstable. The answer is simple. Instability in our economy results from instability in effective market demand. But the answer to why market demand is unstable is not simple. It is very complex indeed. Market demand for goods and services is, of course, made up of the combined demands of individual customers, business firms, and the Government. At any given time market demand depends upon (1) how much cash or credit is available to customers, businessmen, and the Government; and (2) how much of that cash or the proceeds of that credit they are willing to spend for goods or invest in business assets.

That is clear enough, but involved in the determination of how much cash and credit is available to customers and business firms are such matters as tax policies, credit policies, and the status of international trade. Involved in the determination of how much cash and credit is available to the Federal Government are decisions of the executive branch and of the Congress.

Complex as are the problems in the matter of availability of cash and credit, they are nothing as compared with those which determine the willingness of customers and businessmen to spend and invest. Here we run directly into psychological factors. Individual customers quite often have enough cash or credit to keep market demand stable but are not willing to spend this cash or credit. Paradoxically, this question of willingness of customers to spend becomes a more significant factor with every increase in our standard of living. If most of us are just barely able to earn a minimum living, we will have little choice as to what we buy or when we buy it. Our money will go for food, clothing, and shelter that we have to have regularly. On the other hand, the more money we have beyond what we must use for basic needs, the more chance we have to choose what we buy and the larger the number of purchases which we can postpone—and often do, though we have money in the bank.

What is true of the individual buyer is even more true of business. Business can postpone its purchases even more easily than individuals. Modern competition makes business put more and more of its money into capital goods—buildings and machinery, office and store equipment, and inventories—to make possible low-cost production and to provide the values and services which buyers demand. If businesses do not make such purchases, the savings of both individuals and businesses cannot find their way into the stream of active, creative capital. But businessmen will make investments in such capital goods only if there is promise of a reasonable profit. These purchases are postponable. When chances of profit are dreary, they are often put off even though ample cash reserves are on hand.

The availability of cash and credit, and the confidence in the future which produces willingness to spend or invest, essential as these are, are not all that is needed. We need also effective competition to assure that an increase in demand will bring about increased production rather than higher prices. Unless businessmen are in a position freely to start new enterprises or expand the output of existing business, and unless workers are able to shift freely to new jobs, increased market demand for goods may give us inflation, rather than increased employment.

It is against the background of these various factors that we must develop a program to moderate economic fluctuations. The program must recognize, of course, the necessity of maintaining adequate purchasing power, but it must also take into full account the importance of giving individuals confidence in the continuity of their incomes, or giving businessmen confidence in the prospects for continued profitable operations, and of creating the conditions of competitive opportunity which channel market demand into more production rather than higher prices.

While we are seeking for measures to minimize the instability of our economic system and thus correct its weaknesses, we must constantly keep in mind that its strength lies in its natural lusty vitality. That we must not lose. Otherwise, we may end up with a stabilized poverty so characteristic of the tired, regimented, old-world economies.

Now comes the $64 question. What kind of a program can we get in motion that will provide dynamic stability? The complexities of the problem are such that it cannot be solved by magic, by a simple formula, or by one cure-all. It will take the collective wisdom of all of us—Government, business, labor, agriculture, and the educators—to help us work our way toward our goal. Nevertheless, complex though the problem is this much is clear: That the fluctuations in the volume of business stem from activities of men; therefore, if men act more sensibly, the fluctuations can be moderated. There is no excuse for either violent booms or busts. The notion that they are inevitable or unavoidable should be utterly rejected.

Now is the time when we should intensify our efforts to achieve dynamic stability; we should not wait either for that much advertised recession, or for that big depression which is being so freely predicted for the early 1950's. We should, in the first instance, put into operation those measures the soundness of which is not subject to question, and, second, we should intensify our study of those proposals which are appealing but which have not been adequately tested. There are a surprising number of measures which practically all thinking men approve and which only need to be put into action.

As we examine measures aimed at increasing the effective functioning of our economic system, we must consider particularly how they affect our citizens as individuals. Our economic system has a responsibility beyond that of efficiently carrying on trade and commerce. It must add to rather than subtract from the opportunities for the individual to make full use of his capabilities and for his maximum growth and development—socially, intellectually, and spiritually.

BASIC POLICIES FOR DYNAMIC STABILITY

The maintenance of dynamic stability is a responsibility shared by all participants in our economy—job holders, job seekers, employers, labor leaders, farm leaders, and by every one of us jointly through our local, State, and Federal governments. Because of its importance, I shall deal first with the role of government, especially the Federal Government and then with the part that businessmen can play in achieving economic progress and stability. The responsibilities of labor groups, farm groups, and others I shall not develop in detail.

1. *Responsibilities of government.*—The whole people acting through their government, and particularly their Federal Government, have crucial responsibilities for promoting and maintaining a dynamic economy with high employment. What the government does is important. What the government refrains from doing is almost equally important. There is urgent need to clarify the role of the Government in our economy so that businessmen can plan with reasonable certainty as to the risks to be encountered.

Government's role in the economy as a direct employer is and should be a minor one. Public employment is neither an adequate nor a desirable method of achieving stability. A government guaranty of "jobs for all" might lead to state socialism which would wither the independence, the initiative, and enterprise of the individual which have made this country great. Nor is it the proper function of government in peacetime to intervene in competitive pricing, wage negotiations, or production. Such interference is too liable to domination by special interests, and is likely to impede the efficient use of resources for maximum production.

The most vital function of government is to establish conditions under which private enterprise can operate most effectively. It must foster competitive production and trade, and check monopoly power; it must conduct its own operations, including taxation, in a pattern conducive to dynamic stability; it must maintain the integrity of the dollar and stability in the supply of money and credit.

(*a*) Vitalizing competition: It is a primary responsibility of government to stamp out practices that restrict competition; to provide information and assistance that will improve the quality of decisions by business, particularly small business; to establish conditions that stimulate inventiveness and the assumption of business risks. Business, labor, agriculture, and government have too often directed their planning against competition for the protection of special interests.

In the last 15 years especially we have learned by experience that monopoly power in private hands of either business or labor is dangerous, and that even under government supervision it is not safe. We need to plan for competition. We need thorough study of how competition actually functions and fails to function, what it can and cannot do to mitigate depression. Out of such investigation could come realistic policies for extending the area of effective competition and for promoting stability in ways that will encourage competition, not restrain or extinguish it. The growth and vitality of our system depends on wide-open opportunity for entry of new business and expansion of existing business whenever production and employment can be increased.

(*b*) Small business: Full opportunity for new and small business is especially important. Small businesses provide a multitude of laboratories for new ideas and new products; they promote flexibility and competition in the economy; they are among the most effective means for developing the full talents of individuals. Government has a responsibility for breaking down monopolistic barriers to the entry and growth of small business, for removing the bias in the tax system against risk taking, for reducing the heavy tax drain on earnings needed to plow back for expansion, and finally for fostering the development of a better supply of risk capital.

(*c*) Government expenditures, including public works: Federal expenditures now amount to 20 percent of the national income. All government expenditures, including State and local, are more than 25 percent of the national income. Obviously every possible effort must be made to increase the efficiency of government operations, to economize as carefully as businesses and individuals do in their own affairs, and to avoid unwarranted hand-outs.

We repudiate government spending for its own sake under any circumstances. In depression it is far better to leave more money with the taxpayers.

The timing of postponable expenditures for needed public works and for other essential purposes does, however, offer some opportunity for moderating booms and busts. Such expenditures should be held up, insofar as possible, in boom times and, on the basis of carefully worked-out plans, executed promptly in depression.

But public works cannot be relied upon solely or even mainly to maintain stability. The volume of useful and well-conceived projects that are postponable and the scope for prompt expansion and prompt contraction is too meager to compensate for mass changes in employment in the whole economy. A proper timing of public works expenditures, if participated in by State and local governments as well as the Federal Government, could contribute substantially to a stabilization of the construction industry.

(*d*) Taxes: Federal taxes alone now take 25 percent of our national income. The power to tax is the power to destroy. Our present tax system exerts a devastating influence on the dynamism of our economy. It is cutting deep—often more than half way—into the incentives for risk taking and creative effort. It is draining off the earnings needed for expansion of small business.

As a first step toward correcting the weaknesses in our present system, tax rates should be stabilized, set so as to balance the consolidated cash budget in a period of normal prosperity, and then let alone. Stabilized tax rates and current collection bring in a high volume of tax dollars in periods when inflation threatens and a low volume of tax dollars in periods of depression. Thus, stabilized tax rates are automatically countercyclical in their influence on the economy. We have had a dramatic illustration of this fact in the last 12 months as tax revenues have jumped beyond all expectations as prices and incomes rose, thereby generating a huge anti-inflationary cash surplus.

The principle of balancing the consolidated cash budget at high employment calls for substantial reduction in tax rates from present levels. Further cuts will be possible as Government expenditures are reduced. We in CED have a deep conviction that tax reduction is essential to the dynamism of the economy. On the need for tax reduction there is widespread agreement. The issue is how much and when. Part of the present Federal cash surplus arises from abnormally inflated prices and incomes in some parts of the economy which will come back into line as competition reasserts itself. There are, moreover, uncertainties as to the demand for exports. In the present circumstances with less than 2,000,000 unemployed, numerous shortages and inflated prices, a substantial cash surplus is needed. In view of the uncertainties we face, we should be conservative in applying the principle of balancing the consolidated cash budget at high employment. We should proceed by steps, putting into effect a partial but substantial cut in the near future and further cuts later as we can see more clearly the level of national income to be attained under a stable price level at high employment. But we must get taxes down from their wartime levels; and that means continued vigorous efforts to reduce Federal expenditures.

The great need, of course, is for a recast of our tax system aimed at producing the needed revenues with a minimum of interference with the attainment of dynamic stability. In 1944 CED issued a policy statement under the title of "A Federal Tax System for High Employment." We are now engaged in a restudy of Federal taxation and expect to issue a report on the subject early this fall. Copies of the 1944 statement are available to any one of you who wants it.

(*e*) Unemployment compensation: So far we have made only limited use of unemployment compensation as a social tool, but its effectiveness has been dramatically demonstrated. It gives people the confidence in continuity of income which is so essential to the achievement of greater stability in our economy. It also makes a tangible contribution through maintenance of purchasing power. We should not allow the circumstance that there has been considerable maladministration of unemployment-compensation insurance blind us to its benefits. Our aim should be to extend it as far as practicable to all workers, and to increase benefit standards in those States where standards are now low. Payments, of course, should not be large enough to make unemployment attractive.

(*f*) Monetary and credit policies: If it were possible to do business by barter, we should have little, if anything, in the way of booms or busts. Booms occur when people, businesses, and governments in total try to increase their expenditures by drawing down their cash balances or by borrowing (especially from banks). Busts occur when they try to decrease their expenditures to accumulate more cash or pay off debt (especially bank debt). I say "especially bank debt" because the money supply rises as banks increase their loans and investments and falls as they decrease them.

Money and credit provide the medium through which booms and busts cumulate and feed upon themselves. The severity of the great depression from 1929 to 1932 was induced by large-scale liquidation of debt and a sharp contraction of the money supply. The war and postwar inflation we have been going through was induced by enormous expansion of public debt including heavy bank borrowings and concomitant creation of additional money.

Insofar as possible, it is desirable to reduce the cyclical expansion and contraction of money and credit, and even, perhaps, to change it to a countercyclical pattern. But in this area, it is easier to state objectives than to show how to achieve them.

Some few points are clear, however. In prosperous times, loans should not be made which will turn sour in a depression. In a period of depression, loans should not be called if they are still good risks. Bank examiners should bear down more heavily in good times than in bad. Federal Reserve discount, reserve, and open-market policies should be directed to restraining the expansion of credit in periods of prosperity and easing credit in periods of depression.

Money and credit are areas in which many billion-dollar questions remain unanswered. We need more research to find out what happens to money balances, cash flows and credit in business fluctuations. We need also a careful realistic appraisal of our money and credit institutions to see whether they could serve us better, contributing less to instability and more to the stability of our economic system.

(*g*) Foreign trade: Our objective should be the increase of peaceful trade among the peoples of the world. The postwar prosperity of all nations and prospects for continued peace would be advanced by the reestablishment and increasing development of world trade. The interchange of goods, international travel, and communications between peoples can make for better world understanding. If the barriers to trade increase after the war as they did before the war, each nation will have to look inward, primarily to its own resources, and the higher and richer ways of life made possible through world trade will be lost. The pressures to restrict are strong; vigorous effort to expand world trade is necessary to overcome them.

The United States has a major interest in the expansion of world commerce. We are a powerful industrial nation. We need vast quantities of goods and services of many kinds. Normally we have large a margin of efficient, productive capacity which can be put to work making things for international trade. We can exchange these things with the people of other countries who, themselves, make other things available for trade—other things better or cheaper or different than we can or want to make.

A restrictive course by America toward foreign trade is contrary to American interest. It will be followed by restriction abroad. Inevitably pressures will be built up which will limit private trading and foster trading on the part of governments. Governments which have a monopoly on international trade find it quite natural to expand their controls over domestic trade.

In my opinion, we should give full support to the State Department in the battle in which it is now engaged to bring about a great reduction in the artificial barriers to trade between nations, whether they take the form of tariffs, import quotas, restrictive exchange practices, subsidies, or restrictive business agreements.

In the world situation today, however, a vigorous program to reduce tariffs and remove trade barriers is not enough. There is overwhelming need for world reconstruction and rehabilitation.

The first step should be a realistic appraisal of world needs, as has already been suggested by ex-President Hoover. The next step is to propose, as Secretary Marshall already has in the case of Europe, to the country or countries which need help, that they themselves develop a plan of action for their own reconstruction. Once we have an accurate picture of the needs and sound programs we should, in my opinion, within the limits of our resources, extend help to get these countries back on their feet. If we do nothing and wait for the world to fall to pieces, Russia will be there to pick up the pieces.

The greatest single contribution which the United States can make to high levels of trade and employment throughout the world is to maintain a high level of employment, production, and consumption within its own borders. In serving ourselves by maintaining our own prosperity, we serve all other countries as well.

(*h*) Agriculture: On this subject, I should like to refer you to the testimony of Chester C. Davis, vice chairman of the research and policy committee of CED, which he presented before the Agriculture Committee of the House of Representatives June 7, 1947.

In passing I quote from the concluding section of his testimony:

"We have to try to see farming in the right perspective in our complex modern life. It is impossible to consider agriculture by itself, the way you can fence off and cultivate an 80-acre field. All of our interests are interwoven in a tight, complicated, fast-moving economy. In the long run, conditions under which farmers raise and market their crops will be greatly influenced, if not controlled, by developments entirely outside of agriculture. Decisions in foreign capitals, in the Houses of Congress, in board rooms of great corporations, or in labor-union halls will help determine whether farmers suffer or prosper in the years ahead.

"If I could be granted the fulfillment of one wish for the growth and prosperity of agriculture, it would be this: Let the nonagricultural industries and labor find the way to keeping working at full efficiency and capacity turning out goods and services that can be absorbed by this country in a high standard of living—in better homes, equipment, electrification, refrigeration, sanitation, clothing, ad infinitum. With steady work and efficient production, prices could go down without cutting profits or wages. Real wages would increase, for the laborer is like the farmer—it isn't the number of dollars, but what he can buy with his product or his labor, that counts.

"Under such conditions, the farmer could produce abundantly and still trade on good terms for what the other man makes; he could prosper at lower-price levels. I think that really is the way out."

(*i*) Industrial peace: The views of the research and policy committee of CED on some of the problems in attaining industrial peace were presented in a policy statement entitled "Collective Bargaining, How To Make It More Effective," issued in February 1947.

Instead of attempting to summarize that report, I should like to leave a copy of it with you. We are continuing our study of the subject and hope to issue another policy statement as our staff research progresses and as we clarify our own views on the remaining issues.

This discussion of the responsibilities of Government in maintaining high productive employment is not exhaustive, but it does high-light the major areas we have studied in CED.

2. *Responsibilities of businessmen.*—To help make our economy dynamic and stable, there are certain things that businessmen can do.

(*a*) The primary responsibility of a businessman is to operate his business profitably: He owes this to his stockholders, his workers, his suppliers, and customers, and the public. Only a profitable business can offer security and opportunity to its employees.

(*b*) Operating profitably requires constant efforts to increase efficiency and lower costs: Only through use of better equipment and better methods can workers continuously raise their output. Only through such increased productivity can workers obtain higher and higher real wages.

(*c*) Businessmen must push forward the search for new products and services: New products can enrich our lives and fill needs of which we are unaware today. Radio is the most recent example of such a product. We can get some idea of the debt we owe commercial research if we stop to realize that more than 50 percent of our people today are employed in manufacturing and servicing products that were unknown 50 years ago. The automobile industry alone provides jobs for over a million people. Whether you design a new airplane or work out a better way to deliver milk, you have added to the total dynamics of our economy.

(*d*) Businessmen should exercise scientific control of sales expenditures: If we are to have a stabilized market demand, selling pressures must be maintained—perhaps increased—at the first sign of a decline in business. We must avoid spending sprees when business is good, so that reserves will be available when extra pressure is needed. I know of no single way business managers can do more to help stabilize market demand than through greater stabilization of sales and advertising expenditures.

(*e*) Every employer should regularize employment to the greatest extent possible: Much already has been done, but we can do more to flatten out the seasonal curve of employment in individual businesses and industries.

(*f*) Businessmen should avoid unnecessary expansion of inventories and launching of capital expenditures in boom times: Such action is limited by operating needs and costs; but when opportunity exists, such policies should be pursued in the interests of stabilizing the operation of other businesses, and thus of all business.

(*g*) Businessmen should look to the long run in their pricing policies: This means foregoing additional profits now in order to expand markets, improve competitive position, or encourage greater internal efficiency. Lower prices and greater volume will not be possible, however, if in the future we continue to have each year a tidal wave of wage demands unrelated to increases in productivity. Such demands, if granted, result in higher prices, lower output, less employment.

(*h*) Participation in a sound program for industrial peace is a responsibility of employers. They share this responsibility with labor leaders and in special cases with government. In this connection I refer again to the CED policy statement on collective bargaining.

(*i*) It is the responsibility of every business leader to provide conditions which will encourage the growth and development of those associated with him: Far above the responsibility of management for its products are its responsibilities for its people. Business managers are in a very real sense the trustees of the potentialities of those who work for them. It is people who make a business. Show me a business where people are growing, and I will show you a business that is making a true contribution toward a dynamic America.

SHORT-RUN MEASURES TO COPE WITH BOOM OR DEPRESSION

In coping with booms and depressions, our main reliance should be on built-in dynamism and built-in stability. These should be supplemented by definite permanent policies in regard to public works and other deferrable expenditures and in regard to money and credit.

Only by adopting these basic measures and policies can we avoid the need to improvise in emergencies. Such improvising is dangerous. Emergency remedies are likely to be half-baked measures which fail to work as expected and which hamper rather than help full recovery and future progress. Only by achieving the maximum of built-in dynamism and built-in stability can we minimize the need for reliance on fallible human forecasts.

I recognize, however, that in coping with booms and depressions there are usually special circumstances in each case which provide opportunities for special temporary measures to supplement our basic policies.

1. *Measures to restrain further inflation.*—Today our productive resources are being used almost to the limit to meet the demands of consumers, businesses, government, and foreign countries. While shortages are now being made good in one area after another, while some prices are declining, and while there are signs on the horizon that the demands for capital formation are beginning to ease, nevertheless we must recognize that the present situation is potentially, even though it is not currently, strongly inflationary. Consequently, I believe that

many of the recommendations previously made by CED to fight inflation are still in order. These include:

(*a*) Continuing efforts by management, labor, and government to break bottlenecks, increase productivity, and avoid interruptions to production.

(*b*) Restraint by all in raising prices, wages, and salaries, in recognition of the common interest in avoiding a further wage-cost-price spiral.

(*c*) Restraint by individuals and businesses in making deferrable expenditures at the present time.

(*d*) A vigorous and continued effort to reduce Government expenditures not urgently needed now and to maintain sufficient revenues to yield a substantial excess of receipts over expenditures.

(*e*) A monetary policy to help prevent further expansion of expendable funds in the hands of the public. This includes restraint on the part of the Federal Reserve System and the commercial banks in the further expansion of loans and investments.

(*f*) A vigorous campaign to increase the sale of Government bonds, especially E and F bonds, to the public.

(*g*) Limitation of exports to essential requirements of foreign countries, except for goods in fully adequate supply.

2. *Measures to counter deflation.*—We should not get the jitters at the first signs of any slackening in demand. We have become so used to a sellers 'market that desirable adjustments in prices in response to normal competition are sometimes interpreted as evidence that depression is here.

We should be careful also not to overcorrect. In particular, a large-scale made-work program could prevent needed cost-price readjustments and create additional inflationary pressures in the ensuing recovery.

Above all, we should beware of restrictive policies designed to protect special groups from the rigors of competition at the expense of the public. Such restrictions fence in segments of the economy and limit the opportunities for production and trade. We cannot achieve abundance by producing less, by artificially jacking up prices or wages, or raising barriers to trade. Higher tariffs, NRA-type restrictions, and a tidal wave of wage increases do not cure depression and they weaken the dynamic powers for expanding output and increasing productivity.

When a recession comes, businesses should take advantage of it by moving rapidly on planned capital expansion to improve their competitive position at low cost in anticipation of recovery. This now makes as good sense as did bold expansion in the postwar transition to realize on expanded markets. As I have already suggested, sales and advertising effort should be maintained and intensified. And new products should be introduced in order to maintain volume and exploit the full opportunities of better times to come.

Government should take the steps I have already indicated in my discussion of the basic policies required for high employment. In particular, I refer to the fiscal and monetary policies appropriate in depression, including easing of restrictions on credit and the prompt execution of previously made plans for public works.

In addition, there are certain special measures appropriate to counter a deflation if it comes in the near future. These include:

1. Reduce tax rates immediately so that the cash consolidated budget would be in balance at a high level of employment, if this has not already been accomplished.

2. Liberalize or eliminate any remaining restrictive controls on production, trade, or credit.

3. Accelerate the stock-piling of strategic war materials.

These lists of special measures to combat inflation and to counter depression are short. They should be short. We cannot save our economy by repeated emergency measures. We must concentrate on building more dynamism and stability into the system and developing a body of continuing policy on which we regularly rely to offset the recurring tendencies toward boom and bust.

Beyond the measures which I have discussed, there is need for intensive research by Government, educational institutions, and private groups on problems for which the answers are still obscure. The shockingly small amount that has been spent on fundamental economic research is a national disgrace. As a Nation we have been willing to spend hundreds of millions of dollars for research in technology, but pathetic amounts have been devoted to research that will help build a society that will use that technology for the public welfare—that will administer that research wisely. The research going on in the principles of administration, in the understanding of our economic and social environment, and in the field of human relations is today tragically small.

We need not only to encourage economic research, but after we get the facts we must be willing to face them if we hope to achieve our goals. We must give up trying to use slogans, clichés, and views based on prejudice as answers to tough economic questions.

In concluding this testimony I would like to shift from discussing problems to discussing prospects; in the first instance the prospects for achieving stability. In a free economy we can never have absolute stability. However, by adopting appropriate measures of the type I have discussed, we can, I believe, hold the swing between the peaks and valleys to perhaps 15 to 20 percent.

We can live and prosper with that. We cannot live with fluctuations such as that which took place between 1929 and 1932, when business volume dropped more than 50 percent. Another collapse of that magnitude might cost us our free economy.

Now as to the prospects for further progress. If through wise action we can make our economy operate more effectively, the real income of most of our people can be doubled within 25 years. We can largely realize the age-old dream of abolishing poverty. Most important of all, on this material foundation we can build conditions which will provide not only equality of opportunity, but certainty of opportunity for every man, woman, and child in this country.

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Gardner Cowles, president and publisher, Des Moines Register & Tribune, Des Moines, Iowa.
Donald David, dean, Graduate School of Business Administration, Harvard University, Soldiers Field, Boston, Mass.
C. Scott Fletcher, president, Encyclopedia Britannica Films, Inc., 20 North Wacker Drive, Chicago 6, Ill.
Marion B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.
George L. Harrison, president, New York Life Insurance Co., 51 Madison Avenue, New York 10, N. Y.
Robert Heller, president, Robert Heller & Associaties, Inc., Union Commerce Building, Cleveland 14, Ohio.
Paul G. Hoffman, president, the Studebaker Corp., South Bend, Ind.
Jay C. Hormel, chairman of the board, Geo. A. Hormel Co., Austin, Minn.
Eric A. Johnston, president, Motion Picture Association of America, Inc., 1600 I Street NW., Washingtn 6, D. C.
Ernest Kanzler, chairman of the board, Universal C. I. T. Credit Corp., 1700 United Artists Building, Detroit 26, Mich.
Fred Lazarus, Jr., president, Federated Department Stores, Inc., 707 Race Street Building, Cincinnati 2, Ohio.
Thomas B. McCabe, president, Scott Paper Co., Chester, Pa.
Fowler McCormick, chairman of the board, International Harvester Co., 180 North Michigan Avenue, Chicago 1, Ill.
Philip D. Reed, chairman of the board, General Electric Co., 570 Lexington Avenue, New York 22, N. Y.
Beardsley Ruml, chairman of the board, R. H. Macy & Co., Inc., Herald Square, New York, N. Y.
Wayne C. Taylor, 1723 Twenty-second Street, NW., Washington, D. C.
J. Cameron Thomson, president, Northwest Bancorporation, Minneapolis, Minn.

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT OF THE AMERICAN FARM BUREAU FEDERATION

Mr. O'NEAL. May I proceed, Mr. Chairman?

Senator O'MAHONEY. Yes, you may.

Mr. O'NEAL. I hope you will have patience to listen to my statement. It is a little lengthy but I will try to hurry along.

Senator O'MAHONEY. It doesn't require patience to listen to you.

Mr. O'NEAL. Thank you, sir.

My name is Edward A. O'Neal. I am president of the American Farm Bureau Federation, an organization comprised of over 1,128,000 farm families in 45 States and Puerto Rico. I am very happy to appear before this joint committee, which in the words of your chairman, Senator Taft—

under the authority of the Employment Act of 1946 is charged with the duty of developing a governmental policy to prevent or alleviate economic depressions.

There is perhaps no more important task confronting our Government than that of adopting wise policies which will prevent a depression and its disastrous consequences. The farmers of the Nation know what a depression means. Following World War I the prices received by farmers dropped and remained low relative to prices paid for 20 long years. During this period the equivalent of one farm in three was sold at forced sale. Farmers well remember that when the prices of their products were so low that they couldn't afford to harvest them was a time when we had millions of unemployed in the bread lines of our cities. Yes, farmers are very vitally concerned about preventing future depressions.

I am happy to present the broad program of the American Farm Bureau Federation. We realize that the farmers' problems go far beyond the farm, and even beyond the pricing of farm products. I would like to give each of you gentlemen a copy of the resolutions adopted at our twenty-eighth annual convention held at San Francisco last December. Ten thousand farmers from 45 States were present there. This convention was attended by over 10,000 farmers from all over the United States. While I will not take time to read them, I would like to call your attention to our resolutions on international cooperation, international trade, the farm program, labor relations, price-level stability, and taxation, which are on page 2 through page 17 in our annual resolutions. You can readily see that these resolutions cover many of the problems with which your committee is confronted.

Early in the discussion of how to prevent economic depressions or how to maintain a high level of employment, I would like to point out very clearly that my organization believes if a high level of employment is to be maintained, it must be done by private enterprise. We do not believe it is possible under a free economy for government to assume the function of providing jobs for all. It is the government's definite responsibility to create an environment in which private enterprise can operate successfully to the greatest possible advantage of all the citizenry. Beyond the provision of an opportunity we do not feel that the Government can guarantee security of the individual against all economic hazards confronting modern society.

Early in my testimony I would like to point out that the American farmer does not expect the present high prices to continue indefinitely. He realizes that the high foreign demand caused by the disruption of the war and the high domestic demand caused by inflated wartime earnings are responsible for abnormally high prices. Likewise, the farmer does not expect the Government to stand idly by and witness a disastrous decline in prices such as was experienced following World War I when farm prices dropped over 40 percent in 1 year. There have been criticisms of the present program of supporting prices at

90 percent of parity. The high cost of living is not due to the price-support program. May I remind you that most prices have been considerably above the support level, due chiefly to our humanitarian efforts to feed the world, and the unprecedented demand for food and fiber here at home. May I also remind you that if it had not been for this support-price program the chances are that we would not have been able to attain the present high level of agricultural production and food prices could easily have been considerably higher than present levels. Farm production, in spite of shortages of machinery, fertilizers, and 5 million fewer people on farms, is nearly one-third above the prewar level. This minimum guaranty afforded by the Steagall amendment may be very cheap insurance for the American public.

We must also bear in mind the fact that farmers get only a small portion of the consumer's food dollar, and that farmers have no control over the mark-ups that occur after a commodity leaves the farm.

Production and balance: One of the primary functions of Government is to maintain the proper balance among the various segments of our society. This balance is absolutely essential if we are to obtain the maximum production that this great Nation is capable of producing. This balance involves a fair relationship between wages, farm prices, and industrial prices. We cannot repeat the mistakes that were made during the 1920's when industry and labor prospered while agriculture was depressed. In the late 1920's we had relatively high industrial activity, high wages, and high profits, and foreign trade based upon false promises, and a depressed agriculture. We all know what happened in the early thirties.

The cornerstone of the American standard of living is production. We must develop policies which will encourage maximum, efficient production. This means a full day's work for a full day's pay on the part of labor, a policy of full production on the part of industry, and programs to discourage shut-downs. Agriculture has amply demonstrated its willingness to produce even during periods of depression, but agriculture cannot continue a policy of full production unless similar policies are followed by other segments of our society.

In discussing the question of balance in our economy, may I point out to you that even with wartime-inflated earnings the per capita income of persons on farms in 1945 was only about 57 percent of the income of persons not on farms. In the prosperous year of 1929 the per capita income of persons on farms was less than 25 percent of those not on farms. We cannot have the type of economy we all desire with such discrepancies in income between large segments of our society. The welfare of the 40 percent of our population who live in rural areas is vitally affected by the purchasing power of farmers.

Foreign relations and trade: The American Farm Bureau Federation is proud of its record in support of international cooperation. We believe that the United States is in a position of world leadership and that we must face realistically the responsibilities. The Farm Bureau has supported the United Nations and its associated organizations, such as the Food and Agriculture Organization, the Monetary Fund and Bank, and the proposed International Trade Organization.

One of the most urgent problems before the world today is the economic reabilitation of war-torn areas. We believe that the United States should do its part toward meeting this problem. We heartily approve the establishment of a national committee to appraise the size of the over-all job that must be done, and to formulate a coordinated approach in which the nations aided will cooperate by doing a maximum for themselves.

We believe that foreign trade is vital to the economic welfare of our Nation, to say nothing of the important part it plays in the fulfillment of our position of world leadership. We believe that it is essential that this Nation faces the problem of world trade in a realistic manner. In World War I and during the 1920's we maintained our trade by extending credits to foreign nations. During the thirties we took a major part of the world's gold production in exchange for our exports. During the forties we had lend-lease and relief shipments. Unless we are again to lay the groundwork for an economic collapse, we must develop a realistic trade program. We cannot export unless we are willing to import. On previous occasions I have requested the Congress and resolutions have been passed requesting a study be made of what products we can import into this Nation without unduly disrupting our domestic economy. In this period when we are financing various types of activities all over the world, I believe our foreign policy in respect to trade is one of the most important problems facing a committee whose responsibility it is to develop programs of domestic stability.

The American farmer must have foreign outlets for many of his products. During the 45-year period from 1900 to 1944 we exported about 53 percent of our domestic production of cotton, nearly one-fifth of our wheat, a third of our tobacco, and 29 percent of our lard.

Taxation: We believe that a sound tax program is vital to the maintenance of a high level of domestic prosperity. While we do not believe that now, when inflation threatens and income is at a record level, is a good time to reduce taxes, we believe that our entire system of taxation should be critically reviewed and a long-term tax policy adopted. Taxes should not only be equitable and fair, but also chosen with due regard to their effect upon the economy and adjusted in line with current economic condition. The magnitude of the national debt makes it imperative that our national fiscal policies be handled prudently. A long-range plan should be made for the gradual reduction of the national debt. We believe that the personal income tax should be the major source of income for the Federal Government. We favor keeping the personal income-tax base as broad as practical through the retention of low exemptions. We believe that the corporation tax should be such as to contribute as fully as possible to the maintenance of full employment. Double taxation of dividends should be eliminated. The details of our tax policy are contained in the resolution which I have placed in your hands.

Adding greater stability to the general price level: Farmers, as producers of raw materials, are vitally affected by violent swings of the general level of all prices. During the past year our organization made a study of this question, and at our last convention adopted what we believe to be a program which will contribute to greater price stability. The high lights of this program are as follows. The details are contained in the resolutions which I have placed in your hands.

We believe that the control of monetary, credit, and fiscal policy should rest in the hands of the Federal Government, as prescribed in the Constitution. We believe the control of monetary, credit, and fiscal policies should be coordinated under one authority, and that the policies of this monetary authority should be regulated as far as feasible by a formula based upon some established index which would direct the authority to take action when the index reached certain levels, in order to promote a dollar of more constant purchasing power. Legislation should be passed giving the proper agency of Government responsibility for maintaining the supply of money and credit appropriate to the production needs of the Nation and a stable price level. Steps should be taken to allow the Federal Reserve to regain control of credit. It should be the policy to prevent the contraction of money and bank credits during periods of depression, and undue expansion during periods of prosperity.

We believe that it should be the policy to handle the national debt in such a manner as to make the maximum contribution to economic and price stability rather than financing the debt at the minimum cost. The Government should adopt policies in regard to expenditures and construction which would tend to counterbalance fluctuation in private business and employment. The monetary authority should have power to change the gold content of the dollar within the prescribed limits of the international monetary organization. This Nation should cooperate with the various international organizations to bring about international stability of prices, the orderly adjustment of exchange rates, and foreign trade.

Labor relations: We believe that it is the definite responsibility of Government to see to it that a proper balance is maintained between the bargaining strength of labor and industry, and that neither side is in a position to take undue advantage of the other. We feel that labor legislation has given undue advantage to the labor unions, and this advantage should be corrected. We have repeatedly urged the adoption of what we consider sound labor legislation. We strongly supported the recently enacted Taft-Hartley bill as a step in the right direction, but we believe additional legislation is required in order to deal adequately with labor-management relations and adequately safeguard the public interest.

The CHAIRMAN. Aren't you satisfied for the time being at least? You don't want to start out right away?

Mr. O'NEAL. No; I would try it out for a while. You have done so well with it that I think we should try it out for a little while.

Senator O'MAHONEY. I don't think a leading question ought to be asked.

Mr. O'NEAL. He ought to feel good.

We have repeatedly expressed our views on this subject. They are likewise contained in the detailed resolutions which I have placed in your hands. The American farmer is not unfriendly to labor. We want labor to have good wages, but we insist that abuses that have crept into the labor movement be corrected. We believe that the public welfare is paramount to that of any group. We believe that the record is clear that the labor legislation as it existed during the war did not meet the needs of the Nation. According to the records of the Bureau of Labor Statistics, there were 4,700 strikes in 1946, involving approximately 4,650,000 workers. The number of workers involved and the number of man-days idle were larger than for any of the 31 years for which official records are available. The sad part of it is that in spite of the fact that we were engaged in the most devasating war ever experienced by civilization, the number of strikes in the last 6 years was over 50 percent greater than the number in the 6 years immediately preceding the war. We believe that a better relationship between labor and industry is vital to the maintenance of a prosperous economy.

Farm program: The maintenance of a sound and prosperous agriculture is absolutely necessary if we are to maintain the type of economy we desire. The 40 percent of the people in rural areas cannot be overlooked in the development of national programs. We believe that a well-conceived and sound agricultural program at the national level is essential for the prosperity of agriculture. It therefore behooves this committee to give serious consideration to this important problem. For nearly a quarter of a century the farmers through their democratic organizations have been striving to develop agricultural programs. These programs must not be discarded until there is something better to take their place. No one will contend that these programs have been perfect. We recognize the necessity for adjustments in the agricultural program to meet changing conditions, and have urged through studies to determine what improvements and modifications are required in order to develop a permanent long-time agricultural program which will be more nearly self-sustaining and which will effectively assist in correcting the basic causes of disparity between agriculture, labor, and industry.

Farmers believe in an economy of abundance and stand ready to join with industry and labor to achieve maximum production and maximum employment through price policies and wage policies which are geared to a maximum level of consumption.

Farmers cannot adopt policies of abundance and "free market prices" if industry and labor are going to continue to follow scarcity policies, rigid high industrial prices and fixed hourly wages.

We must recognize, however, that we are entering a period when surpluses may recur from time to time which will have disastrous economic results upon the entire economy unless we are prepared to deal effectively with the surplus problem. We insist that machinery for adjusting agricultural production and supplies to total market demand be retained and strengthened. The American Farm Bureau Federation believes in the principles and objectives of soil conservation, acreage adjustment, and marketing quotas when needed, commodity loans and surplus disposal as provided by basic agricultural legislation. There is a lot of talk about stimulating consumer demand instead of adjusting agricultural production. While we recognize the merit in some of these proposals, we still insist upon maintaining our adjustment programs as a protection to the farmer in event it is impossible to provide adequate demand.

We urge that the Agricultural Marketing Agreements Act of 1937 be strengthened and permit the use of marketing agreements to be extended to all agricultural commodities, whenever the producers of any commodity desire the benefits afforded under this act.

We favor the continuation of crop insurance, but urge its use only with regional adjustments and on a sound actuarial basis. We insist that the Commodity Credit Corporation be provided with sufficient funds to carry out the loan, support, and other programs as authorized by the law.

We urge the retention of section 32 funds for use in the disposal of agricultural surpluses through domestic and foreign outlets. We favor the adoption of a positive, effective program for retaining and maintaining our fair share of the world markets, a sound program for the development of new uses and new markets for agricultural commodities, and intensified educational program toward improved nutrition, and a wisely planned school-lunch program.

We insist that the Government's commitments to farmers to maintain the present mandatory commodity loan programs for basic commodities be fully carried out. We further insist that the integrity of the Steagall amendment, permitting the Government to support prices of nonbasic commodities for which increased production was requested during the war at not less than 90 percent of parity or comparable prices, be fully carried out until the end of the support-price period, January 1, 1949. We recognize, however, that in some cases the support-price program will necessarily need to be contingent upon compliance with production quotas and other mechanisms to prevent excessive production, to the end that unnecessary Government costs be avoided.

We believe the parity principle, which includes the fair-exchange-value concept, has made and will continue to make a valuable contribution to the American economy. We will resist any attempt to destroy the parity concept. It is recognized, however, by the American Farm Bureau Federation that the parity formula should be modernized, to become effective at the end of the Steagall support-price period.

The American Farm Bureau Federation believes that soil conservation is of primary importance, not only to agriculture but to the entire Nation. We believe that considerable saving could be made and more efficient program developed if the agencies engaged in conservation programs were properly coordinated.

We realize that the development of a sound national fertility program, which includes means whereby an adequate supply of high-grade fertilizers could be made available to farmers, would do much to conserve the soil of the Nation. This program should be accompanied by a test demonstration program which would educate farmers in proper methods of fertilization.

The Farm Bureau is a firm believer in education: Research is the foundation of a sound educational program. We consider the new research and marketing act as essential to the development of a sound agriculture. Research and education are two things which we as a nation cannot afford to neglect under any circumstances.

The details of our present farm program are likewise contained in the resolutions which are in your hands. At the present time we have a committee at work reviewing our past position and developing a long-time program for American agriculture. As soon as this work is completed we will be glad to supply this committee with a copy of their findings.

The responsibilities of this committee are so broad, and there are so many interrelated factors, that it is impossible to cover them adequately in any one statement. Again may I repeat that the American farmer realizes the great responsibility that this committee has in seeking ways and means to maintain a prosperous and productive economy. He realizes the individual responsibility of labor, industry, finance, and agriculture. We again pledge our cooperation as farmers in doing everything possible to bring about and maintain a sound domestic economy which is so essential to the preservation of the American way of life and our cherished ideals.

I thank you, Mr. Chairman and gentlemen.

The market basket of farm food products: Retail cost, farm value, marketing charges, and farmer's share of consumer's food dollar, 1943–46[1]

Year	Retail cost[2]	Farm value adjusted for by-products[3]	Farm value plus Government producer payments[4]	Margin	Marketing charges (including tax and payment adjustments)[5]	Farmer's share[6]	Marketing charges as percentage of retail cost
	Dollars	*Dollars*	*Dollars*	*Dollars*	*Dollars*	*Percent*	*Percent*
1913	264	124		140	140	47	53
1914	272	125		147	147	46	54
1915	267	120		147	147	45	55
1916	321	145		176	176	45	55
1917	442	210		232	232	48	52
1918	458	235		223	223	51	49
1919	513	250		263	263	49	51
1920	568	245		323	323	43	57
1921	427	172		255	255	40	60
1922	408	163		245	245	40	60
1923	413	166		247	247	40	60
1924	406	166		240	240	41	59
1925	442	191		251	251	43	57
1926	448	188		260	260	42	58
1927	434	180		254	254	41	59
1928	435	186		249	249	43	57
1929	435	183		252	252	42	58
1930	421	165		256	256	39	61
1931	339	121		218	218	36	64
1932	284	92		192	192	32	68
1933	276	90	92	186	184	33	67
1934	311	107	116	204	195	34	63
1935	347	138	147	209	200	40	58
1936	349	143		206	206	41	59
1937	362	156		206	206	43	57
1938	328	128		200	200	39	61
1939	316	122		194	194	39	61
1940	317	128		189	189	40	60
1941	347	154		193	193	44	56
1942	407	196		211	211	48	52
1943	458	237	238	221	227	52	50
1944	451	237	246	214	225	53	50
1945	459	247	258	212	228	54	50
1946	529	282		247	255	53	48
1946—May	474	[5] 250		[5] 224	[5] 239	53	50
June	481	256		225	241	53	50
July	547	288		259	260	53	48
August	572	297		275	276	52	48
September	[6] 540	288		[6] 252	[6] 263	[6] 53	[6] 49
October	[7] 601	331		[7] 270	[7] 270	[7] 55	[7] 45
November	635	332		303	303	52	48
December	623	332		291	291	53	47
1947—January	613	325		288	289	53	47
February	608	328		280	279	54	46
March	631	351		280	280	56	44
April	632	339		293	293	54	46
May	628	329		300	299	52	48

[1] Calculated from retail prices collected by the Bureau of Labor Statistics and the Bureau of Agricultural Economics.
[2] Payments to farmers for equivalent quantities of farm produce minus imputed value of byproducts obtained in processing.
[3] Marketing charges equal margin minus processor taxes plus Government payments to marketing agencies.
[4] Farmer's share of consumer's food dollar calculated from farm value before addition of producer payments.
[5] Revised.
[6] Retail ceiling prices for meats used in lieu of actual retail quotations in September.
[7] August retail prices used as a substitute for October prices for pork.

The CHAIRMAN. Mr. O'Neal, you spoke at one point, I think, of the possibility of setting up danger signs. I wondered whether this committee could develop certain formulas of indications of danger that required some action, because on this question of preventing a depression, even if you figure out any theory of how you do it, it seems to be very difficult to reach agreement as to when a depression is coming.

Mr. O'NEAL. That is true.

The CHAIRMAN. Here the leading Government economists predicted a depression with 8,000,000 unemployed just after the war. It turned out they were all wrong. And the measures that were adopted were rather inflationary measures to meet it, which is just what they did not need, as it turned out at the time.

Mr. O'NEAL. That is right. I was profoundly impressed by Mr. Hoffman's statement. I did not get in here to hear his whole statement, I am sorry to say. Senator Taft and gentlemen, we farmers some time ago set up a committee. Mr. Hoffman was one of them, Marriner Eccles was another, the vice president of the Chase National Bank in New York was another one, and White, of the First National Bank of Chicago, and some economists. We all sat down to study this sort of thing, and you would be perfectly astounded at how close the thinking of these fellows was in advising us on this thing.

The CHAIRMAN. Much closer, I think, than economists of two different schools got in their thinking.

Mr. O'NEAL. Much closer. They are fine. They can pick all the peanuts out, and they can show you all the chaff and all that sort of thing, but I think that you gentlemen in Congress can pursue certain policies that will help to stabilize our economy that will prevent these disastrous "booms and busts."

The CHAIRMAN. Well, stability certainly is dependent upon certain plans for one thing. One of them would set up a balance between farm prices, farm income, and industrial income.

Mr. O'NEAL. That is right.

The CHAIRMAN. And there might be a formula that could be set up, say, when that balance began to go out of balance, but beyond that and before that happened we might be able to set up a series of danger signals that would flash when some serious disproportion appeared in the economy.

Mr. O'NEAL. Well, I might say, Senator, I was honored by you gentlemen in the Senate putting me on as a member of the Office of War Mobilization and Reconversion. I was perfectly astounded to hear the reports of the Secretary of the Treasury and the head of this agency and the other agency and what was accomplished in the coordination of these agencies and their policies. They had to coordinate and I think it is possible to have more coordination and more planning there between the Federal Reserve and the Treasury Department that handle monetary, credit, and fiscal policies.

The CHAIRMAN. Did I see some suggestion that you would move the gold content of the dollar up and down? Don't you thing that is rather dangerous, to have one thing stable and try to adjust other things to it?

Mr. O'NEAL. Well it occurred to us, while gold is not in circulation here, it is a recognized monetary symbol all over the world. You don't want to fluctuate it too much.

The CHAIRMAN. In fact, I think it would be better to start with the theory that you were not going to fluctuate it at all to begin wih.

Mr. O'NEAL. We tried it before and it did not work so well, did it?

The CHAIRMAN. No; it did not work out well before.

Mr. O'NEAL. No; it did not.

The CHAIRMAN. Mr. O'Neal, you said that there should not be foreign trade unless we were willing to import, but what type of things do you propose to import? That is the problem, of couse. What are those other imports to consist of?

Mr. O'NEAL. There is a world of raw materials that we can bring in. I notice out in Chicago, out in the Midwest, where I am living temporarily, that there is a scarcity of oil now. There is a world of things that you can import. Some of the big manufacturers will tell you that in making these commodities which our industries manufacture so efficiently, there are enormous amounts of stuff that we can bring in.

The CHAIRMAN. You mean raw materials?

Mr. O'NEAL. I mean raw materials.

The CHAIRMAN. Agricultural as well as other materials?

Mr. O'NEAL. There are some agricultural materials that can be brought in. We are tariff fellows to the extent that we don't want to be put out of business.

The CHAIRMAN. That is the way manufacturers feel, too.

Mr. O'NEAL. They feel that way too; but you know the funny thing is that the most prosperous manufacturers are the fellows that have the least tariff protection. The record shows that.

The CHAIRMAN. That is true; but that is because of their particular position. Naturally, people that have products that foreign people can compete with are not as prosperous as people who are able to underbid on other products.

Mr. O'NEAL. Surely, but as I watched industry, it certain has been remarkable what they have done. We never would have won the war if we didn't have the type of industrial leaders we have.

The CHAIRMAN. We are all in favor of importing things but I find it difficult, outside of a certain number of things we do not produce, to get people to agree on what it is we ought to import.

Mr. O'NEAL. Yes; that is true.

Senator O'MAHONEY. It is also rather difficult——

The CHAIRMAN. Now, wool, you would not want to import that.

Mr. O'NEAL. Well, I might say, Mr. Chairman, I do not want to interrupt my friend the wool grower. I don't want to interrupt him, but I remember that after the other World War period we had the farm bloc—10 Democrats and 10 Republicans; and we tried to work out a program for American agriculture. We waded along through the various principles and we came along down in the early thirties and we got together pretty well and we put what was known as section 22 and section 32 in the AAA Act. We recommended them and they worked awfully well. There is a little protection in that, of course.

Senator O'MAHONEY. Well, Mr. O'Neal, when you pointed your finger at me and spoke of the wool grower I might correct the record and let it be clearly understood that I am not a grower of wool. I am just the wool growers' advocate.

Mr. O'NEAL. Sure, sure.

Senator O'MAHONEY. I noticed, Mr. O'Neal, in your statement which appears on page 4, with respect to these imports that "a study be made of what products we can import into this Nation without unduly disrupting our domestic economy."

How much disruption can we stand?

Mr. O'NEAL. Well, we have some disruption. The amount of the disruption we have I think you will agree with me, Senator O'Mahoney, has been interior. It has not been due to imports, but an interior disruption.

Senator O'MAHONEY. I am just trying to limit this statement of yours.

Mr. O'NEAL. You don't want to put out of business a legitimate business, a legitimate industry in this country because we have the highest standards of living in the world.

Senator O'MAHONEY. I thought that is what you meant.

Mr. O'NEAL. Sure.

Senator O'MAHONEY. But when a witness says that we should import without unduly disrupting our domestic economy it raises a question as to whether or not he believes there is some measure of disruption which can be endured.

Mr. O'NEAL. Well, yes; he might do it. I am sure he did I am not an industrialist, but you know and I know that you and everybody wears shoes; there are few bare-footed people in the country. When a lot of shoe manufacturers were raising a protest about bringing in shoes from Czechoslovakia—the shoe manufacturers seemed to meet the situation pretty well with a little competition.

Senator O'MAHONEY. That did not cause any disruption. That was just a little powerful competition. That is what you mean, I think.

Mr. O'NEAL. Yes; that is what I mean.

The CHAIRMAN. We still have a pretty high tariff on shoes.

Mr. O'NEAL. We sure do.

Senator O'MAHONEY. I want to get to a more important subject immediately, having to do with the high cost of living. Testimony given yesterday afternoon by Mr. Colt of the Bankers Trust Co. was to the effect that agricultural prices are now about 180 percent of what they were in 1939, whereas industrial prices are about 62 percent higher. In the course of your testimony you spoke about the proportion of the food dollar, of the consumer's food dollar which the farmer gets. What is that now? I know before the war it was very small.

Mr. O'NEAL. It is about half that the consumer gets.

Senator O'MAHONEY. You mean at the present time that the farmer is getting about 50 cents of the consumer's food dollar?

Mr. O'NEAL. That is right.

Senator O'MAHONEY. And the other half goes to the processor and the distributor?

Mr. O'NEAL. Yes.

Senator O'MAHONEY. And what was it before the war?

Mr. O'NEAL. Well, the farmer has received, I believe, up to about 54 cents, but I think it was a good deal below that at other times. It has been better recently now than it was at one time. You take the city of Chicago that I am living in. I notice there they are having an intense fight with processors and the truck drivers there. The food chains sell a quart of milk for 2 cents less if the worker will go and pick up his bottle of milk and the unions don't like that. They want to keep those trucks running all around, they want to keep down that differential. That just costs the consumer 2 cents more.

Senator O'MAHONEY. Have you any suggestion to make to us with reference to new uses of agricultural products? What should the Government do to encourage a sound program for the development of new uses and new markets. Just what do you have in mind?

Mr. O'NEAL. Just one more point, Senator, and I think you will all agree. It is not unusual to take that 1939 period because in that period we were 23 percent below parity. As a matter of fact, if you look in those tables I gave you there you will find that practically the only time, as I said in this brief, over a number of years, it is only during the war period that the farmer gets parity or better. It is not fair to use that comparison with 1939.

Senator O'MAHONEY. Reverting to this question about the farmer's share, this table that I have before me indicates that in 1913 he received 47 cents of the consumer's dollar; in 1919, 49; in 1921, 40; in 1929, 42; in 1933, 32. The average for the period 1935 to 1939 was 40 cents.

Then from 1940 to 1946 it rose from 40 cents to 54 in 1945 and dropped back to 53 in 1946 and now is variously estimated for the first three months of 1947 as between 53 and 56.

Now, then, in regard to my question about your recommendation for a Government program, if you do recommend a Government program to find new uses and new markets for agricultural commodities, what do you have in mind?

Mr. O'NEAL. Well, Congress passed last year the Agriculture Research and Marketing bill, which we strongly supported.

And that has great possibilities, it is a remarkable program. You gentlemen gave agriculture the money back yonder to establish four regional laboratories and I think you should be intensely interested in what these four laboratories have done.

Senator O'MAHONEY. I take it you recommend that Congress should appropriate sufficient funds to carry on the inquiry?

Mr. O'NEAL. Yes. That is just peanuts to what you gentlemen originally appropriated to big industry during the war. If you have read Kaplan's report, he tells about the amount of money that was spent by the Government for the big industries, tax money that was spent. What you are allocating is less than peanuts compared to what industry, some of the richest in the United States, received, great volumes of money, your money and mine, tax money, without any offset. It runs into many, many billions of dollars.

Mr. HUBER. Senator, would you yield for one minute?

Senator O'MAHONEY. Certainly.

Mr. HUBER. You deplore strikes, Mr. O'Neal, as I understand you and you definitely advise a more drastic labor bill than the Taft-Hartley bill. How then do you justify the strike having been called by the meat-producing farmers last fall?

Mr. O'NEAL. I appeared before the Senate committee and before the Decontrol Commission on that very question. It was not any strike.

Mr. HUBER. They just wouldn't get out meat, is that it?

Mr. O'NEAL. The law of supply and demand ruled. I want to ask you a question. What other groups in the United States observes the law of supply and demand except the farmer? I wish you would name me one, will you?

Mr. HUBER. Well, you are an authority on farming. I am not.

Mr. O'NEAL. The farmers kept on producing.

Mr. HUBER. I might ask you this: If you can compel the workingman to sell his labor for a certain price under certain conditions, then could you not compel the farmer to sell his produce, which he produces through his sweat, with the help of God and nature, for a certain price also?

Mr. O'NEAL. I say we believe in collective bargaining; sure we do.

The CHAIRMAN. I don't want to let that go by. There is nothing in this bill that makes any man work for anything that he does not agree to work for, except that he continues to work for 60 days after his contract ends.

Mr. HUBER. The Government sets up the wage for which he should work.

The CHAIRMAN. No, there is only a 60-day period in there in a case where the whole Nation is affected by an industry, he has to continue the status quo for 60 days. That is the only place in the whole bill that has anything to do with making him work.

Mr. O'NEAL. You know farmers are out working for 18 hours a day and it makes them mad as blazes, to be frank, to see how the other fellow works. Sure they go out and work. They get a good price, sure; they are not complaining of that; they don't complain about a good wage, but they do complain about a fellow sitting down and not doing anything.

Now, farmers say: "We work. Look at our record of production in the last 10 years despite the fact that we have 5,000,000 less workers." Do you know what would happen if we farmers really followed the practices of labor?

Let me give you some figures. If we were to come here and say to the Congress, "All right, we want the hourly wage and the 40-hour week that the industrial worker gets." If we were to ask for that now, in the year 1945 the total gross income of the farmers, I believe, was 24 billion. We have got the figures how long it takes to produce a quart of milk or a pound of this or that or the other, we know that, and if we had done that it would just raise double the prices of agricultural commodities in the United States. Instead of 24,000,000,000 it would have been 48.

Mr. HUBER. Well, you know, I represent three rural counties and I have the highest opinion in the world for farmers and industry, but I also found some farmers who worked part-time in our factories in addition to taking care of their own work.

Mr. O'NEAL. The trouble I found with the farmers down where I was raised—and where I went to school with them—they worked on their farms and I said to them, "With 40-cent cotton why haven't you got all the land in cotton?" They said—the Negroes and whites both said—"No, Mr. O'Neal. At these big industrial plants you can make $10, $15 a day and you don't have to work." You go down there and I will let you talk to them and they will tell you this.

Mr. HUBER. Where is this now?

Mr. O'NEAL. Down in Alabama.

The CHAIRMAN. Do you have any more questions?

Mr. HUBER. No, thank you.

Senator O'MAHONEY. Then I take it, Mr. O'Neal, that what you want is cooperation between agriculture, labor, and all the other segments of the economy.

Mr. O'NEAL. Senator, I just want to say this: That I have lived through that period that the charts cover that are in here and as I have said to Phil Murray, Bill Green, and all the labor leaders—and I had the pleasure of sitting with them—"What in the world was your hourly wage worth between 1929 and 1932; what was parity worth to American agriculture; and what happened to the high industrial prices? We told you then that you had to have a balanced economy or we would all go to hell together; and we went."

In other words, you get this thing way up high, you get that way up high, and you get out of balance; you hurt the great mass of American people here outside of agriculture and outside of labor.

Senator O'MAHONEY. Senator Taft has indicated that he has had labor legislation enough for one session, so I want to concentrate attention now on what can be put into effect by all segments of our economy. That is what you want to do now.

Mr. O'NEAL. Yes, sir.

Senator O'MAHONEY. And you recognize, no doubt, that the industrial portion of our population furnishes a very excellent domestic market for the farmer.

Mr. O'NEAL. I will say this, though: We have got to have more than the domestic market and I hope you gentlemen won't forget that. You have got to have your support price also. Anybody that tells you that we can eat all that we produce and chew all the tobacco and eat all the oranges doesn't know what he is talking about. We could use all the wool. If you would just have the industrialist who uses your wool really make some good cloth, that would be good.

Senator O'MAHONEY. Let me call your attention to the fact that the per capita consumption of beef is about 150 pounds per year and that is 25 to 30 pounds more than we ever consumed before in the United States. My explanation for that high per capita consumption is the fact that a larger proportion of our people have the money in their pockets to buy the beef which is raised upon our western ranges and elsewhere throughout the United States.

Mr. O'NEAL. Let us try to keep it that way. Now that is your job, gentlemen.

Senator O'MAHONEY. That is right; do that by cooperation.

Mr. O'NEAL. Yes; but, Senator, don't you get it too high because we may go through that same tumble that we had in the other period.

Mr. HERTER. Mr. Chairman, might I ask one question?

The CHAIRMAN. Mr. Herter.

Mr. HERTER. Mr. O'Neal, in connection with these tables that you submitted, where you make the estimate of the net income of those on the farm and those not on the farm, does that include an estimate of the individual food requirements supplied from the farm?

Mr. O'NEAL. Yes; I think they do.

Mr. HERTER. I wonder what that net income means; whether that means spendable income?

Mr. O'NEAL. That means total income.

Mr. HERTER. If you figure what they got in their own consumption off the farm, that would probably make it higher; wouldn't it?

Mr. O'NEAL. No; these figures include allowance for that.

Senator FLANDERS. Mr. Chairman, I haven't had the advantage of hearing Mr. O'Neal's testimony, so I don't know whether he has been asked or has answered this question.

Has your organization taken any position on the reciprocal trade treaties?

Mr. O'NEAL. Yes, sir; we endorsed them.

Senator FLANDERS. And you feel favorably disposed toward the negotiations that have been going on at Geneva and that are proposed to go on?

Mr. O'NEAL. I think so, but I will say this, Senator, as I have told other leaders in government; I think we ought to do some shrewd Yankee trading. I think we can do that.

Senator FLANDERS. You think we have something to trade with?

Mr. O'NEAL. Oh, yes; I will say this for the record: That we had a meeting of the key farm leaders of the country and we discussed the proposed international wheat agreement. Wheat is the only commodity that there would be an enormous surplus of if there wasn't this terrible suffering for lack of food in the world and I believe there were 20 or 30 men from all over the country—from the Grange, the cooperatives and the Farm Bureau—who participated. I said, "Listen, are you going to marry Jane?" Are you for or against the wheat agreement? Only three fellows in the group were against it. In other words, the farmers seriously believe that you have got to trade. We have simply got to trade and there are ways to trade.

I think Senator Vandenberg's suggestion that a study be made of those things and to coordinate the agencies of Government that are doing it is fine. I don't think anybody disagrees with that. It is one of the biggest problems we have got.

The CHAIRMAN. The problem that worries me in the export trade is that in normal times they are in manufactured goods and not the agricultural surplus. That is the problem. Then because the cost of raising agricultural products is considerably higher in the United States than elsewhere and when they are restored to normal production. we do not divert these import items with shipments of agricultural products produced by America. Of course, today it is far different.

Mr. O'NEAL. That is true.

The CHAIRMAN. There are various plans for trying to divert dollars into the export of agricultural instead of manufactured products but I never saw a good one.

Mr. O'NEAL. You know, we have asked the Department of State and the President, and I have a letter from him in which he definitely promised that when they begin to sit around and work out these trades agriculture will be represented there. Recently, an international organization of agricultural producers met over in Europe and three or four of my leaders went over there; also leaders of the other farm organizations and I think about 20 nations. The producers were all in agreement fundamentally that we work out trade agreements.

The farmers were for it everywhere. We have got a problem just as you say, Senator Taft; we have got a rather high standard of living.

The same rule works all the way across with industry, labor, and everybody else, but I believe we are smart enough to work out this problem.

Senator O'MAHONEY. Mr. Chairman, I would like to suggest a little comment to Mr. O'Neal on the latest and perhaps most alarming development in the field of agricultural production. First let me say that during the past 7 or 8 years the United States has been extremely fortunate and on a high level. You will agree with that, will you not?

Mr. O'NEAL. Yes, sir; a 10-year record.

Senator O'MAHONEY. Now, the reports which are coming to us indicate that the outlook for the corn crop will be extremely pessimistic; is that right?

Mr. O'NEAL. That is true; yes, sir.

Senator O'MAHONEY. All the papers carry the reports that corn has gone to about $2 or more a bushel. Of course, it is obvious that the price of corn will have almost a controlling effect upon meat production. That is right; is it not?

Mr. O'NEAL. Yes.

Senator O'MAHONEY. And it will also affect the capacity of the United States to carry on its program of economic rehabilitation, to which on page 4 of your statement you have given your support.

Mr. O'NEAL. That is the reason, Senator. I have never seen such a desire in my life as the great modern program of the United States for this soil-fertility program for the American farmers.

Of course, the big fertilizer industries are fighting it. I want to say if you go out in your area of the United States, that God made so rich, to see what floods have done to soil fertility, and what it is going to cost the American people, you would see that Congress should pass that bill unanimously. The farmers are for it, and when I testified before the Agricultural Committee of the Senate the fertilizer industry fought it. Well, they are a short-sighted group, as I can prove by the experience of the past. There we had all that great grain-growing area of the United States demanding that the Government put a little money into a program of this type so as to step up production.

Senator O'MAHONEY. I know that you and your organization are in favor of soil conservation and you favor the prevention of disastrous floods in order that we may conserve the soil.

Mr. O'NEAL. Sure.

Senator O'MAHONEY. But what I am directing your attention to now is another problem, and that is the problem of the price of foods, because if corn is higher, as it is, and we do not have corn enough to feed our cattle and other animals, then we are likely to develop a shortage of meat and then we are likely to have price increases and then we are likely to start a new spiral of cost-of-living wage raises and other demands for wage increases and the crippling of our effort to contribute to the rehabilitation of Europe.

Now, what remedy do we have there? What about price control? Could that be established again?

Mr. O'NEAL. You may have to go back to it again; you may have to do it. We did not believe in the subsidy, though. The farmers did not believe in it; but I am saying this: God has been good to us with this great wheat crop. We have to check this shortage of corn we are facing this winter.

It may be this, Senator: Corn may be higher and it may be necessary that we would not eat it but use more wheat instead of corn. We have still got an enormous surplus of potatoes; we have still got a lot of things of that kind to eat.

Senator O'MAHONEY. Are you suggesting voluntary rationing or resumption of rationing?

Mr. O'NEAL. A lot of it will be voluntary, but we do not like price control if we can help it.

Senator O'MAHONEY. Well, I would very much appreciate it if the American Farm Bureau Federation would look into this most recent development of the agricultural season and give the committee the benefit of its considered judgment upon it because we have now a problem developing if we are going to have a short corn crop.

Mr. O'NEAL. I already did it. We have a bill in Congress over here and I can take each one of you and show you where God made the land and sent the water and I can show you in modern science with the proper use of fertilizer we can just double and treble the bushels of wheat and corn.

Senator O'MAHONEY. That is the long-range program.

Mr. O'NEAL. No; that is the next year.

Senator O'MAHONEY. Well, next year won't satisfy this one.

Mr. O'NEAL. Well, you have a lot of wheat this year, but that is the quickest way I know to do it.

The CHAIRMAN. Thank you, Mr. O'Neal, and for these tables which are attached to your report, which are very interesting and which will be useful to the committee.

The committee will adjourn until tomorrow morning at 10 o'clock in the caucus room, I believe.

(Whereupon, at 12:15 p. m., the committee adjourned until 10 a. m. Thursday, June 26, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

THURSDAY, JUNE 26, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in the caucus room, Senate Office Building, at 10 a. m., Senator Joseph C. O'Mahoney presiding.

Present: Senators O'Mahoney, Flanders, and Watkins; Representatives Hart, Bender, Rich, and Huber.

Also present: Staff members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

Senator O'MAHONEY. In the unavoidable absence of the chairman, Senator Taft, who was called to New York last night, I have been asked to open the session. The chairman and some other members will probably turn up a little bit later in the morning. Since the end of the fiscal year is at hand, almost all of the members are busy with other committees.

Mr. Rieve, are you ready to proceed?

Mr. RIEVE. Yes.

STATEMENT OF EMIL RIEVE, ADMINISTRATIVE CHAIRMAN, CIO FULL EMPLOYMENT COMMITTEE, PRESIDENT, TEXTILE WORKERS UNION OF AMERICA, VICE PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS, OF NEW YORK CITY, N. Y.

Mr. RIEVE. Mr. Chairman, I have an abbreviated statement that I wish to read to the committee, but I would like for the record to put in my full statement, if there is no objection.

Senator O'MAHONEY. That is the plan under which we are proceeding. The full statement may appear in the record.

(Whereupon the statement of Emil Rieve was submitted and made part of the record as follows:)

TESTIMONY PRESENTED BY EMIL RIEVE, ADMINISTRATIVE CHAIRMAN, CIO FULL EMPLOYMENT COMMITTEE, PRESIDENT TEXTILE WORKERS UNION OF AMERICA, VICE PRESIDENT, CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE JOINT COMMITTEE OF THE ECONOMIC REPORT

My name is Emil Rieve. I am the administrative chairman of the CIO Full Employment Committee, president of the Textile Workers Union of America, and vice president of the Congress of Industrial Organziations.

The function of this Joint Committee on the Economic Report is set forth in the Employment Act of 1946. Section V, 3 of that act states "that it shall be the function of the joint committee * * * as a guide to the several committees of Congress dealing with legislation relating to the Economic Report, not later than February 1 of each year (beginning with the year 1947) to file a report with the

Senate and House of Representatives containing its findings and recommendations with respect to each of the many recommendations made by the President in the Economic Report * * *"

This joint committee has failed to prepare any data relating to the Economic Report of the President presented to Congress early in January. This failure constitutes a violation of the intent of the act. It indicates that the leadership of the joint committee has no interest in enacting legislation which will "promote maximum employment, production and purchasing power."

The purpose of the Employment Act of 1946 was to provide a means whereby one committee of the Congress would map out in general terms for the benefit of the individual committees dealing with individual pieces of legislation an over-all economic program of economic legislation.

The purpose of the act was to see that the President's total program was studied and analyzed by Congress rather than to have its parts taken up on a piecemeal basis only.

The purpose was to have the differences between the President and the Congress clearly and public set forth—together with the reasons for such differences.

The purpose was to have the leaders of both parties clearly state their views on the President's economic program. What reasons did this joint committee give for failing to comply with the Employment Act? In its purely pro forma report of January 31st a number of reasons were given. One was that the President's proposals in his Economic Report were controversial. If this is the reason, then the leadership of this committee is guilty of complete failure to understand the intent of the act in setting up the joint committee. The act clearly provides that the joint committee's report is to serve "as a guide to the several committees of Congress dealing with legislation relating to the Economic Report."

Another reason given was that there was insufficient time before the statutory reporting date of February 1. But the reason why the Republican leadership felt there was no time was because they were spending all their time during the last 3 weeks in January in hastening action on separate pieces of legislation—mainly the tax bill and the labor bill—thereby ignoring the intent of the act to have a general program worked out as a prelude to action on specific issues.

Another reason given was that the committee did not have staff at that time. The committee now has ample staff—and still no decision has been announced to submit to Congress, as required by the act, a report containing its findings and recommendations with respect to the President's main recommendations.

The committee should see that: (1) its present hearings are clearly oriented toward appraisal of the Economic Report of the President,

(2) Before the end of the session, and as quickly as possible, the committee should present—even though belated—a report of the type specified in section (b) of the act.

If it does not see fit to comply with the Employment Act, if it continues willfully to violate both the spirit and letter of the law, then the leaders of the joint committee should resign so that other members may be appointed who are willing to cooperate in a common effort to promote maximum employment, production, and purchasing power.

The Employment Act clearly sets forth as its objective that "the Congress hereby declared that it is the continuing policy and responsibility of the Federal Government to—promote maximum employment, production, and purchasing power. Legislative action in the field of economic programming should have as its fundamental objective the promotion of full employment and full production through the maintenance of maximum purchasing power.

I should like to point out where I think actions by our Federal Congress by our executive arm of the Government and by business groups have been working in the opposite direction of promoting full employment and full production through maximum purchasing power. However, before I review the action taken by the Congress, Government and business groups in the past few years, I should like to review briefly some basic economic trends which are now developing in our economy. These trends call for bold action by the Congress. We are now at a crucial turning point in our economic development. It is difficult to predict the specific trends of employment, production, and purchasing power during the coming months. We can only hope to examine the present situation as it stands today, weighing the favorable economic factors against the unfavorable and then decide in our best judgments a positive course of action.

I shall examine in turn the trends in employment, prices, profits, wages, savings, production and other important economic facts.

EMPLOYMENT

The Census Bureau of the Department of Commerce reports that employment in the month of May was over 58 million, an all time peak. In spite of this high level of overall employment, spotty unemployment situations are cropping up in various industries which bear watching. According to the Department of Labor, employment in manufacturing industries has declined for the past two months. A total of 251,000 workers have been laid off in various segments in manufacturing industries. In the textile and apparel industries, for example, employment dropped by 143,000 between March and May. The electrical goods industry has lost almost 60,000 workers and employment in the rubber products industry, including tires and tubes, has declined about 16,000. So we see that in spite of attaining ever new levels of employment, certain segments of our basic industries have already begun to feel the pinches of unemployment.

We are conducting amongst CIO Unions a survey of unemployment. We have received so far only sample returns from our international unions; but we will have complete returns within a period of a week to ten days, at which time we shall be glad to make the results available to this committee. These preliminary returns show that curtailed orders, reduced purchases, and consumer resistance because of price increases have not been the only causes of downturns in employment. Certain segments in the steel fabricating industry have witnessed employment cuts because of the inability to obtain sufficient basic materials. During the last of April and early May parts of the automobile industry were forced to close down for lack of sheet steel. I point out the unemployment situation because I do not think we can look at the over-all figure of total employment which shows a favorable picture and yet draw the proper conclusions about our economic developments.

PRICES

What has happened to prices since the elimination of price control is obvious to everyone. The chairman of this committee predicted that all would be well if price controls were eliminated. He said competition would soon take care of the price problem. The chairman of this committee was not alone in making such statements which have not been borne out by developments. Many Members of Congress, Senators and Representatives, supported by the National Association of Manufacturers, and other employer groups stated unequivocally that once OPA was eliminated, competition would soon take care of the price problem. The law of supply and demand, they said, would see to it that prices found their own level at a point close to the OPA price ceilings.

Senator Wherry predicted that meat prices would be lower if controls were removed. The OPA Administrator replied that meat prices would go up 50 percent if price ceilings were eliminated. Both Senator Wherry and the OPA Administrator were wrong in their predictions. Meat prices went up much more than 50 percent.

Wholesale food prices of all commodities since June 29, 1946, just before OPA temporarily expired, have gone up 31 percent. This is 31 percent superimposed upon an already large increase of 46 percent between 1939 and the middle of 1946. Mid-June 1947 found wholesale prices of foods 43 percent above the OPA price ceilings. Building material costs have gone up 35 percent in this 1-year period. All other groups of commodities listed under the Wholesale Price Index, with the exception of fuel and lighting and household furnishings which have gone up 19 and 17 percent respectively, have increased from 25 to 45 percent. There are some who say that the peaks in wholesale prices have been reached and that lower prices are imminent. Since the month of March when most of the peaks were reached, all wholesale prices have been reduced by only 1.2 percent. Minor and token reductions, which have occurred in certain commodities, are good in themselves, but we must remember the current wholesale prices for all commodities are now 31 percent above what they were in the OPA ceiling days in late June 1946. It will take far more than token declines to reestablish OPA price ceilings.

On the retail price level an all-time high in the consumers' price index was reached in the month of March. Retail prices were over 17 percent higher than they were when OPA was temporarily suspended on June 30, 1946. Since March the price index has declined by less than one-third of 1 percent.

What may happen to prices in the coming months is difficult to tell. I should like, however, to make only two brief points in this connection. One, predictions of record-breaking food crops for this year may have to be altered in the light of the present flood situation in the Midwest. Two, our export program to Europe may exceed previous estimates. These two factors when added together may result in further inflationary increases in food prices.

It is admitted by all that prices are now too high. There seems to be little evidence that prices will decline, but much evidence to force us to consider higher prices as a definite threat. The responsibilities of this committee in promoting "maximum employment, production, and purchasing power," because of this price situation, are extremely grave.

PROFITS

Profits of all corporations on an over-all basis were at record highs during 1946. The Department of Commerce has just released revised figures in its series of corporate figures. They show that profits for 1946 set a record at 12.5 billion dollars, 2 billion dollars above the 1943 peak. But this 12.5 billion dollars for the entire year does not tell the whole story. These same figures from the Department of Commerce show that the annual rate of profits earned by all corporations, after taxes, in the fourth quarter in 1946, was 16.2 billion dollars. This is almost 6 billion dollars more than the peak attained during 1943. While it was true that certain industries faced with reconversion problems, industrial unrest and material shortages showed losses during the early part of 1946, this Department of Commerce survey shows that all industries were earning period breaking profits in the fourth quarter.

Reports for 1947 have not been published by the Department of Commerce. All indications would lead me to believe that the annual rate of profits during the first and second quarters of 1947 were at levels in excess of those attained in the last quarter of last year. Certain of the services, trades, and soft-goods industries, according to the National City Bank and other published profit reports, show slight declines; but the automobile, iron and steel, electrical, and other basic mass-production industries reported higher profit levels. The high-profit levels in these industries were sufficient to counteract any declines which may have occurred in the other industries. Consequently, 1947 profit levels continue higher than those described as phenomenal for the last quarter of 1946.

There are many reasons why profits attained these exorbitant levels, not the least of which was the elimination of the excess-profits tax by the Congress in late 1945. However, a large degree of the increase in profits can unquestionably be attributed to the higher price levels. Of course, some increased profits have resulted from greater volume of sales. With anticipated higher levels of sales, industry could have continued to make fairly reasonable levels of profits without increasing its prices. But industry after industry took advantage of every situation. Even with the removal of excess-profits taxes and the reduction of corporate taxes, a greater volume of sales seemed not enough to satisfy the avaricious appetite of American industries. Not satisfied with all these factors which make toward higher profits, industry increased prices. By increasing prices they obviously pushed up their profit levels. It is these inflated-price levels today which are at the root of our economic ills.

Had industry been content to operate at OPA price ceilings we would not be in this difficult economic condition. But these inflated-profit levels give this committee a tremendous responsibility for the welfare of the American people. If this committee is to carry out its responsibility under the Employment Act of 1946, which is "to promote maximum employment, production, and purchasing power," it must act boldly and fearlessly to stop the serious trend toward further inequitable distribution of our Nation's wealth.

WAGE AND SALARY PAYMENTS

Examination of national-income figures indicates the trend toward a greater proportion going into profits, interest, rents, dividends, and a lesser proportion of national income going into wages and salaries. In 1944, 70.2 percent of national income went into wages and salaries, and 6.2 percent into net corporate profits after taxes. In 1946 the share going to wages and salaries had dropped to 64.6 percent, and the share going to corporate profits rose to 7.3 percent. If we look at just the fourth quarter of 1946 we find, as I mentioned before, profits at the highest point in history, 8.4 percent of our national income, while the proportion going to wages and salaries declined to 62.4 percent. The trend continues. In the first quarter of 1947 we find that the share of wages and salaries in the national income dropped from 70.2 percent in 1944 to 62.2 percent, while on the other hand, the share going to corporate profits after taxes increased from 6.6 percent in 1943 to 9.2 percent.

To be a little more specific, to pass from the discussion of wages and salaries to the actual weekly earnings in manufacturing industries, we find that the average worker was earning $47.44 a week in April of this year. This is equivalent, in dollars only, to the peak weekly earnings of workers in manufacturing industries in January 1945. The April 1947 figure does not yet reflect the wage settlements of this year; the figure, however, does reflect the wage increases of 1946. This isn't as healthy a situation as may appear when we look back to what happened to purchasing power since 1939.

Workers have had their real purchasing power reduced by about $6 from the peak period of 1945 to the present period in spite of the 1946 round of wage increases. A tabulation back to 1939 shows that the average worker in manufacturing industries earned $23.86 then as against $47.44 now, a dollar increase of slightly over 100 percent. However, in terms of purchasing power, a worker's family with two children finds its purchasing power, over this period, has increased by less than $6—from $23.62 in 1939 (after the payment of 24 cents in Federal taxes) to $29.39 in 1947 (after the payment of $1.27 in Federal taxes, and a loss of $16.77 as a result of higher prices). I take this comparison back to 1939 to answer those critics who have said that wage increases have been in excess of 100 percent. In comparison of wage levels it is essential that one consider what present earnings can actually buy.

SAVINGS

The Federal Reserve Board has just completed a study of the savings of American families. This study shows that the trend toward accumulation of liquid assets or savings in the hands of high-income individuals continues. It also shows that many people were forced to dig into their savings in 1946 in order to maintain their standard of living. In spite of this fact, the total amount of savings increased between 1945 and 1946. However, of the individuals earning less than $3,000 almost half showed declines in the amount of savings actually held, while approximately 50 percent of those with incomes above $3,000 showed not only no decrease in savings but a large accumulation of liquid assets.

Reports from the Treasury Department indicate that war bonds of the lowest denomination, series E, were cashed in at a greater rate in 1946 than in any previous year—1946 was the first year that redemptions exceeded sales. Four billion five hundred million dollars of series E bonds were bought and almost 5.5 billion dollars were cashed in, while in 1945 almost 10 billion dollars in bonds were bought and not quite 5 billion dollars cashed in. In 1944, during the height of the war, over 12 billion dollars of series E bonds were sold and only 3 billion dollars cashed in. It was only in the class E series bonds, which are bought by low-income individuals, that the amount of redemptions exceeded the amount of sales. This is one way in which the Federal Reserve Board's study indicates that the trend toward the accumulation of savings in the high-income brackets continues while a drop of liquid assets is occurring in the low-income brackets. Purchasing power is now being bolstered by installment buying which is reaching all-time peaks. This is an unhealthy way to bridge the gap between income and purchases. Inflation first steals savings and then tends to continue on its merry way through expanding consumer credit. This trend should cause any committee or agency of Government, responsible for promoting "employment, production, and purchasing power," to be seriously concerned.

This is among the important trends and developments in our economy. I shall mention only briefly some other important factors which affect our outlook for full employment and full production.

PRODUCTION

Over-all production, according to the Federal Reserve Board index, reached its postwar peak in March. From March to April it showed a decline and in May it held steady. Curtailed production in those fields which I mentioned in relation to unemployment is responsible for some of this decline.

RETAIL SALES

The amount of retail sales has been increasing slightly from month to month in total value. However, when sales are adjusted for increases in prices, the volume has declined. This declining sales volume is partly responsible for some of the decline in production and employment. The trend will continue as long as the price structure doesn't respond and purchasing power continues to decline.

NEW ORDERS

The amount of new orders placed with manufacturing establishments is beginning to decline. This is the repercussion coming from reduced volume of sales and is having its effects upon production, employment, and inventories.

On the favorable side of our economic ledger there are a few factors. There is still a large unfilled demand for many consumer goods—automobiles, electrical appliances, refrigerators, radios, houses, etc. This pent-up demand should be sufficient to maintain our economy at a high level for a period of years. However, the demand is based upon purchase at certain levels of prices. How many people who are in the market will actually purchase at current high prices remains to be seen.

CONSTRUCTION

We are beginning to witness some of the effect of high prices now in the construction field. The volume of new houses is falling off drastically from that which was anticipated at the beginning of the year, and off slightly from the number of new units started last year. The reason for the decline in the number of new units is attributed by the Federal Reserve Board in its June bulletin to the greater rise in prices, and stiffer resistance to them, than had been estimated. However, it cannot be overlooked that the number of new homes being started in the first 4 months of this year is higher than any other corresponding period of any other year since the middle twenties with, of course, the exception of 1946. So that while we are getting a slight decline in construction from 1946, we are operating at very high levels. However, as the Federal Reserve Board points out, prices of housing and real estate are too high to support the present boom market.

FOREIGN TRADE

We are currently exporting at an annual rate of about 15 billion dollars and we are importing at a rate of about 5.5 billion dollars. This means that we are shipping out of this country 9 to 10 billion dollars' worth of goods per year more than we are importing. Extensive foreign trade is aiding in keeping our economy operating at full levels. How much longer we can continue to export at these rates depends upon two very important factors:

Either we must increase our imports so as to enable foreign countries to have sufficient money to pay for this material, or these foreign countries must secure American loans to pay American dollars for American exports. Unless we are prepared to import in larger quantities, or lend these foreign countries sufficient American cash, our export trade will of necessity fall off. It will fall off because the American money and assets held by foreign countries is quickly being liquidated.

SUMMARY OF ECONOMIC TRENDS

I have reviewed in some detail the general trends in our economy. It is hard to predict what will happen in the future because our economy is so complex, but I have pointed out a considerable number of trends which, if permitted to continue, will have a serious impact upon our future economy. For example, I think the high prices, the exorbitant profits, the redistribution of national income, the liquidation of savings by low-income individuals, the shift to consumer loans, the reduced purchasing power of the mass of American consumers, are all steps on the road to collapse of our economy. Whether the collapse comes within a period of 6 months or in a shorter or longer period of time cannot be predicted with any degree of accuracy, but it seems to me that the factors on the unfavorable side are so great and of such tremendous magnitude that steps must be taken immediately by this joint committee in carrying out an economic program which will "promote maximum employment, production and purchasing power."

REVIEW OF THE SEVENTY-NINTH AND EIGHTIETH CONGRESS

Before outlining my views on a specific economic legislative program, I should like to discuss first how Congress through its actions last year and again this year has failed to provide an economic program. I should like to point out how those steps taken by Congress, in my opinion, worked in the opposite direction of promoting full employment, production and purchasing power. There has been no legislation passed by this Congress which, in my judgment, has been consistent with the principles set forth in the Employment Act of 1946.

Excess-profits tax

In 1945, shortly after VJ-day, the Seventy-ninth Congress passed a tax bill eliminating excess-profits taxes as of January 1946. In addition, corporate taxes were cut 5 percent. As an ameliorative measure they cut income taxes by 5 percent, but the main impact of the 1945 tax bill was to eliminate the excess-profits tax. This action encouraged big business to push prices higher and higher. It encouraged big business to profiteer. Had the excess-profits tax been retained, profits would not have soared to their all-time highs in 1946 and 1947. Had the excess-profits tax not been eliminated, business would not have been so eager to raise prices. Had the excess-profits tax been retained, business' desire for higher prices would have been curbed.

I ask a simple question. Was this action of the Seventy-ninth Congress in the interest of "maximum employment, production and purchasing power"? The answer is obviously "No."

OPA extension bill

OPA was due to expire on June 30, 1946. The Seventy-ninth Congress passed an OPA extension bill and timed it so that it would arrive on the President's desk on or near the date when OPA was to be terminated, hoping that the pressure would be so great on the President that he would be forced to sign it. But this bill was so bad, and contained so many features which increased prices instead of maintaining them, that the President had no choice but to veto. For a period of 25 days we had no price control. The cost of living increased almost 6 percent during this period, the highest monthly increase recorded.

Another bill extending OPA was sent to the President and signed on July 26. This bill wasn't much better than the bill he vetoed, but it became fairly evident to the administration that if there was to be any kind of price control, this bill would have to be accepted. The new OPA bill emphasized decontrol. It established three administrative agencies for prices, instead of one. Wide discretionary powers were given these agencies for checking inflation. What the Congress attempted to do in this bill was to pass some of the onus on to the administration and the administrative agencies—particularly the Price Decontrol Board—established under the bill.

Just what the Price Decontrol Board did I shall review in a later section when I discuss steps taken by the executive branch of the Government. Meanwhile, I ask once again, Was this action by the Seventy-ninth Congress in the interest of "maximum employment, production, and purchasing power"? The answer is obviously a resounding "No!"

1947 tax bill

The Eightieth Congress came into session in January. Instead of talking about basic issues, 5 months were spent on hearings, debates, and discussions on a bill to curb labor. Yet labor is one major segment in American life that is able to make a fundamental contribution toward promoting "maximum employment, production, and purchasing power." The present Congress, instead of devoting its time and attention to the basic economic issues facing our country, continued to discuss a bill to weaken labor. However, there was time, during debate on the labor bill, to pass two tax bills; one has become law, the other was vetoed by the President and sustained by the House.

The first bill extended the wartime-excise-tax rates indefinitely. The President terminated the "state of war" on December 31, 1946. This action automatically would have reduced the wartime-excise-tax rates to their prewar level, beginning June 30, 1947. This reduction would have been an aid in promoting purchasing power and thus expanding employment and production. But the Congress was not interested in employment, production, or purchasing power. It maintained the high wartime-excise-tax rates. This was done for many reasons, one of which was obviously a political one. Had the new excise rates been permitted to go into effect, the reduced revenue ensuing would have prevented a flat percentage income-tax cut across the board. Republicans would not have been able to carry out their pledge to cut income taxes if they also permitted excise taxes to be cut. So, excise-tax rates were extended indefinitely.

The House proceeded to consider an income-tax-reduction bill for 1947 which was intended to give tax relief to the needy Republican campaign backers. This was highly consistent with the tax bill passed by the Seventy-ninth Congress which gave relief to corporations. Major tax relief was given to individuals in the high-income brackets. Instead of passing a tax bill which would have relieved the low-income taxpayers who have suffered most through high taxes, depleted savings, reduced income, the new tax bill granted a flat percentage cut across the board. No public hearings were held by the House Committee on Ways and Means. Opponents of this bill were not permitted to appear before the committee.

The bill came before the Senate and hearings were held but it emerged from committee only slightly different from the House bill. The bill as passed and sent to the President would have given tax relief to those who least need it. It would have given tax relief to those, according to the recent Federal Reserve Board study whose liquid assets have increased. This tax would have increased the spendable income of a family of four, with a $2,500 annual income, by 8 cents a day. For those with incomes of $300,000 it would have increased their income $102 a day. I ask once again, Was this action designed to "promote maximum employment, production, and purchasing power?" Again the answer is "No."

Rent control

After the tax bill was passed and the vicious Taft-Hartley bill sent to the President, the Senate took up the consideration of a rent-control bill. This bill is really one which authorizes a 15-percent increase in rents, with complete decontrol set for March 1, 1948. It makes eviction of tenants less difficult for landlords, and completely decontrols hotel rates. The effect of this bill will be to increase the cost of living. It will reduce the amount of money which low-income individuals have to spend on food and clothing. The bill does not grant an outright increase in rents. It just states that where landlords and tenants voluntarily agree to a 15-percent increase, the landlord will extend the lease until the end of 1948. This is nothing more than holding a hammer over the heads of tenants, with the threat that either they have their rent increased now or they can prepare to vacate when controls cease in March 1948.

Was this action of Congress in line with promoting maximum employment, production, and purchasing power? Obviously, no.

Wool bill

This bill works in the opposite direction of promoting world-wide free trade. This bill gives the President authority to increase tariffs on wool. We are in the process of making an international agreement in Geneva which extends and promotes free trade. Passage of this wool bill in Congress at this time tells the world, with whom we want to establish good relations, that where other nations come in competition with America we will place a tariff on their imports to prohibit their shipments to this country. If we are interested in all-out production, Congress should not place any stumbling blocks in the way of foreign trade. We cannot live alone. We must learn to live with the rest of the world. This bill places barriers between us and the nations with which we wish to carry on foreign trade.

Was the passage of this bill in the interest of maximum employment, production, and purchasing power? Again I think the answer is "No."

Appropriations

Every effort has been made by this Congress to reduce the appropriations of administrative agencies. These Republican economy efforts are penny-wise and pound-foolish.

If Congress wants to curtail the effectiveness of some of our basic laws, let it act out in the open by repealing the laws instead of curtailing the operation and enforcement of them by refusing to appropriate sufficient funds.

Appropriations for the Federal Security Agency, the Department of Labor, the National Labor Relations Board, the Department of the Interior, the Treasury Department, the Department of Commerce, and others have been cut. Congressional cuts in appropriations will not only drastically affect the successful operation of executive agencies but will curtail the development of necessary statistical and economic data.

The Bureau of Labor Statistics and the Bureau of Foreign and Domestic Commerce, which supply other branches with statistical data, have had their budgets seriously cut. We cannot hope to develop a sound economic program if we have inadequate information about our economy. The work of this joint committee will be seriously curtailed in its ability to promote maximum employment, production, and purchasing power because of inadequate data.

No positive economic action

There has not been a single step taken by this Congress which has been in the interest of stabilizing our economy. Bills were passed extending excise-tax rates, increasing rents, giving tax relief to the greedy and not to the needy, placing stumbling blocks in the way of foreign trade, and restricting the labor movement. No bills dealing with the health and security, or with housing, or social security, or fair employment practices, or with a sound tax structure have been passed by this Eightieth Congress. The failure of this committee, as I have said before, to take any action on the President's Economic Report to Congress stamps this Congress with the complete responsibility for the developing trends toward imbalances in our economic life.

ADMINISTRATIVE AGENCIES' ACTION

The executive branch of the Government took steps following VJ-day and since which have not been in the best interests of promoting and sustaining a full-employment economy. I shall review very briefly some steps taken by the executive branch which have tended to curtail the development of maximum employment, production, and purchasing power.

Elimination of WPB controls

Shortly after VJ-day the WPB eliminated many controls over priorities and allocations of important basic materials and metals. The elimination of controls so muddled the construction field, for example, that controls had to be reimposed. The housing program has been greatly affected by the actions taken in eliminating controls shortly after VJ-day. Elimination of other controls on priorities and allocations developed extensive activity in the black market. When OPA was completely eliminated, the black market continued but was no longer illegal; it had just shifted into a gray market. For example, much sheet steel, the lack of which is causing certain plants to close down, is being sold for prices far in excess of market prices. Had controls been retained, we would now have a far more equitable and fair allocation and distribution of many basic commodities. Instead we have stock-piling, gray-market operations, hoarding, and other practices which affect production and employment.

Decontrol Board

The OPA extension bill, which became law late in July 1946, set up a Price Decontrol Board. This administrative agency was charged with the responsibility of declaring whether certain items, such as livestock, milk, and grains were to be placed back under price control. The Decontrol Board must accept the responsibility for its action. However, Congress arranged recontrol of prices in such a way as to take the heat off itself and place it upon the executive branch of the Government.

From the day the OPA extension bill was signed, it was inevitable that prices would eventually be decontrolled. The meat situation is a good case in point. When meat prices were again controlled, the meat packers and others began a coordinated effort to keep their supplies off the market. They thus forced a decision upon the administration right before the election. The administration responded to the whipped-up hysteria which had resulted from the shortage of meat. Both the Congress, because it gave the preliminary powers of decontrol to the Executive, and the executive agency itself must assume the responsibility for the tremendous increases in meat prices which have occurred since decontrol.

Complete price decontrol

Shortly after meat prices were completely decontrolled, decontrol was extended over the prices of all commodities except sugar. Here again the responsibility for this act must be placed both upon Congress and upon the executive branch.

Prices were permitted to be raised by many provisions of the OPA extension bill so that by the time decontrol of all prices went into effect we had already witnessed large inflationary price increases.

We have witnessed still more inflationary price increases since decontrol was put into effect last November. None of these actions on decontrol and elimination of controls on materials and construction operated toward promoting maximum employment, production, and purchasing power. Controls should not have been eliminated when they were. The Decontrol Board should have resisted public pressure in spite of the congressional action. Price control should have been retained.

BUSINESS ACTION

Sole responsibility does not rest with these two groups. Business groups have played a large part in placing our economy in its present state of unbalance. First, through their pricing policies, they are in great part responsible for the present inflationary prices. Business followed the policy of getting all it could while the getting was good. Prices were increased without any relationship to costs, ability of the consumer to buy, or stability in our economy. This pricing policy was one of the main factors in bringing about the high level of industrial corporate profits. Not only did business follow a get-rich-quick policy of pricing, but it so manipulated production and distribution during the dying days of OPA as to withhold production from the market in an effort to force OPA to grant price increases. This could be achieved because of monopoly concentration in American industry.

Monopolies operate on the principle of securing higher profits through high prices and moderate production and limited distribution. This is the essence of monopoly operations. It wasn't necessary to limit production during this period to force price increases. All that was necessary was to limit distribution. This was done extensively during the dying days of OPA.

This monster of economic concentration known as monopoly must be given serious attention by the Congress if we are to promote production, employment, and purchasing power. Monopolies operate to limit production and employment. They are able to force higher and higher prices. They have no difficulty in accomplishing these objectives as long as a limited number of companies control most of the output of basic industries.

The four largest companies in each industry control the following percentages of production in these industries:

	Percent		*Percent*
Electric meters	100	Cigarettes	85
Window glass	85	Rolled steel	84
Refrigerating systems	95	Steel plates	79
Typewriters	91	Rubber tires	76
Tractors	91	Wool goods	76
Passenger cars	90		

As long as this type of concentration exists, these major producers in large industries can set their own prices. One-tenth of 1 percent of all the corporations in the United States own 52 percent of our total corporate assets. Monopoly control of American industries has been responsible, in the main, for the current level of high prices and profits and for the maldistribution in our national income.

A positive program of action must be taken by this Congress if we are to avoid a slump in our economy and an eventual depression. Such a program of action was in part outlined in the President's economic report to Congress. This committe has taken no action upon this report and is now some 5 months overdue in its own report to Congress required under the terms of the Full Employment Act.

CIO-ECONOMIC PROGRAM

If the objectives of the Employment Act of 1946 are to be carried out, it is essential that this Congress take immediate steps toward adopting an economic program.

As I have already pointed out, such action as has been taken by this Congress has operated in the opposite direction from promoting the objectives of the Employment Act of 1946.

In spite of continuing high levels of employment, we are witnessing areas in which unemployment is beginning to develop. A downtrend of industrial employment in the past 2 months can, in the main, be attributed to the current inflationary level of prices. This has resulted in the depletion of the liquid assets and savings of low-income individuals. It is essential that steps be taken immediately to reduce food and industrial prices. Unless this is done, we can anticipate cuts in production and unemployment.

An ever-expanding standard of living

A lower level of prices will only partially remedy the situation. Basically, the solution is an ever-expanding standard of living. This can be attained in part through the extension of the area of collective bargaining, through the extension of the right to join trade-unions of the workers' own choosing. Legislative action such as the Taft-Hartley bill curtails the area of collective bargaining, prevents extension of trade-union organization. This Congress, instead of passing legislation designed to curtail collective bargaining, should be passing legislation promoting trade-union organization. In addition to such legislation, positive action in many other fields of economic endeavor must be undertaken if this Congress is to tackle the fundamental issues of maximum employment, production, and purchasing power.

I recommend the following legislative-economic program for consideration by this Congress:

1. *Price Board.*—I suggest that a Federal Price Investigation Board be immediately established by this Congress in cooperation with the executive branch of our Government. Representatives of Congress, the Executive, public-spirited citizens, labor, and agriculture should be members of this Board. Their job would be to shed light upon the unwarranted levels of many prices. By use of public pressure and exposure of profiteering, we may be able to force lower prices. This Board should be empowered to suggest to Congress that specific prices be reduced by legislative action.

We must, however, keep in mind that never in the economic history of America have prices been reduced in advance of a glutted market. Lower prices resulting from such a situation have occurred in those lines having a low degree of concentration of monopoly power. However, a Federal Price Investigation Board using public pressure and exposure of profiteering may change this trend of economic history. It would be worth trying.

2. *Price control.*—We may in the coming months be faced with a serious inflationary advance in prices. If this occurs, the collapse in our economy will be brought on far more rapidly than if prices remain at their present level.

There are two factors which will play an important part in bringing on further inflationary price increases. The first is our export-import program. We are now exporting goods worth a billion dollars more than what we are importing monthly. If this country goes in seriously for the Marshall plan for Europe, tremendous pressure will be brought on our productive facilities and capacities. These pressures for more and more food, clothing, and machinery will inevitably be transplanted into our price structure. I am not opposed to sending food, clothing, and machinery to rehabilitate the European Continent if such rehabilitation is advanced on the basis of need. But let it be fully understood that we must take positive action to stop price increases here.

Secondly, previous predictions of excessive crop yields may prove wrong if the torrential rains and floods continue ravaging the Midwest. Large portions of our crop already have been washed away; still larger portions have not yet been planted. We may face crop shortages.

If these two conditions, crop failure and increased foreign demands, continue, we will inevitably have higher and higher prices.

This will require that we reestablish price control and a rationing program. It is the moral obligation of our Government to see to it that, if this inflationary spiral develops, the low-income individuals of America receive their fair share of food, clothing, and housing at reasonable prices.

3. *Tax structure.*—Our tax structure must be revamped and overhauled. During the war years higher and higher taxes were placed on low-income individuals. Personal exemptions were reduced. The first-bracket individual income tax was greatly increased. Those individuals who bore the greatest increases of taxes during the war should be the first to benefit through tax revisions. It is essential that personal exemptions be increased to a level that permits a family of four to attain a minimum standard of living for health and decency. This means an increase in personal exemptions from the present level of $1,000 to $2,500 and the maintenance of an exemption of $500 for each dependent.

In addition to increasing the exemption, we must reduce and eventually eliminate those excise taxes which cut into purchasing power, savings, and our standard of living. Excise taxes take a greater portion of the income of those earning less than $3,000 than of those in any other income group. If we are to increase the purchasing power of the mass of American consumers, it is essential and vital that we reduce or eliminate many of the present excise taxes.

We must also revise our corporate tax system. Profiteering and excessive accumulation of undistributed profits must be eliminated. High corporate taxes would cut down the pressure for high prices. If corporations knew that profits resulting from high prices would be taxed away, they would be less inclined to increase prices. This in turn would have its effects upon reducing the share of national income going to corporate profits, and redistributing the proportionate share of our national income.

A tax program should close the existing loopholes in our estate and gift tax structure. We should also eliminate the privilege of tax-exempt securities. We should require mandatory joint returns in all States, regardless of whether they have State community-property tax laws. Our capital-gains tax should be made more meaningful.

These and other tax revisions should be made if our tax structure is to be consistent with promoting maximum employment, production, and purchasing power. The CIO tax program has already been presented in great detail to the Senate Finance Committee.

4. *Minimum wages.*—This Congress should immediately adopt amendments to the Fair Labor Standards Act increasing minimum wages from their present level of 40 cents to 65 cents and advancing them to 75 cents within 2 years. This would be a major step in improving the standard of living of millions of Americans living under substandard conditions. It is estimated that 2,000,000 workers would be immediately affected. If the coverage under the act were extended to include those now exempted, some 10,000,000 individuals would be affected. This would be highly consistent with the objectives of the Employment Act of 1946.

5. *Social security.*—The benefits should be greatly increased. A worker cannot afford to retire at the age of 65 if his sole source of income is to be an old-age pension under the present social-security law. When a man is temporarily unemployed, his benefits from unemployment compensation are not nearly enough to maintain himself and his family.

In addition to increasing benefits, the extent of the coverage under the present law should be greatly expanded. Agricultural, trade, and service workers and many others are now deprived of benefits under this act. In addition, the age for retirement should be reduced.

This kind of legislation would be highly consistent with promoting maximum employment, production, and purchasing power.

6. *National health insurance and public health program.*—At present, Americans are denied adequate health and medical care. Inability to afford this service reduces the life span of many of our American citizens. What excuse is there for 145 people a day dying from tuberculosis? Medical care should be available to all American citizens.

This Congress should immediately adopt a national health insurance and public health program. Along with this there should be a concomitant program of hospital construction. We are sadly lacking hospital facilities through this great, broad Nation of ours. Action along this line will be highly consistent with promoting employment, production, and purchasing power.

7. *Fair employment.*—Many of our worthy citizens are denied employment for reasons unrelated to skill, intelligence, character, or initiative, but because of color or creed. This Congress should pass a Fair Employment Practices Act which prohibits such discrimination. Such a bill would go a long way to improving the standard of living of those Americans who are denied employment consistent with their ability.

8. *Aid to education.*—This Congress should adopt a Federal aid to education bill giving equal educational opportunities to all. This would eliminate great differences in the level of education in our many States.

Teachers' salaries should be increased to bring into this profession people whom we would be proud to consider teachers of our children.

New and enlarged school faciilties should be made available throughout the Nation.

These things would enable each and every one of our citizens to become a better American.

9. *Soil conservation.*—Some of the best soil in our Nation is going down the Mississippi and flowing into the Gulf of Mexico, as a result of the torrential rains and floods in the Midwest. An adequate conservation program is sorely needed to preserve the fertile soil which produces abundant crops. It takes a thousand years to replace 1 inch of fertile soil, while a series of floods such as we have had in the past few weeks can wash away soil in no time.

10. *Monopolies.*—A large part of our inflationary price structure can be attributed to the high degree of monopoly power which exists in basic industries. Trust busting has been a plank in every political party's platform. However, in the past 30 or 40 years a greater and greater portion of our economic enterprises no longer operates in a competitive economy.

The Congress should make available to the Antitrust Division of the Department of Justice and Federal Trade Commission and other agencies working in this field, Federal appropriations consistent with the tremendous work and responsibility which they must carry out. This Congress should also give the Federal Trade Commission authority to stop mergers which occur through large corporations acquiring the assets of smaller firms. In this fight against monopoly control, I would suggest the creation of a Federal Monopoly Investigation Board. Duties of this Board would be to examine the extent to which our economy is under the control of monopoly interests. The findings of such a board would help shed considerable light upon the necessary actions which this Congress must take in addition to trust busting, which has not proved too successful.

11. *Farm program.*—Every working farmer has a right to a decent standard of living. In spite of farm income running at an annual rate of 20 to 25 billion dollars a year, there are many small farmers who have not been able to rise above a peon state. The absentee farmer has benefited greatly during the war years and subsequently. An over-all farm program must be developed to insure an equitable distribution of farm income to all farm groups. Until such a long-range program can be developed, price support for farm commodities should be continued, using, however, a revised and modernized parity formula.

The Government should liquidate surpluses and distribute foods through a food-stamp plan. This is highly consistent with improving the standard of living of our lowest income groups.

12. *River valley authorities.*—Other valley areas besides the Tennessee should benefit from flood-control measures. The Mississippi and Missouri and other great rivers of America should be harnessed to prevent floods from ravaging our lands. While developing flood-control measures, we can take advantage of this water power to develop electrification. Where would this Nation have been after Pearl Harbor if it had not been for the electrical energy of the Tennessee Valley and the Columbia River Valley to aid in the production of aluminum, atomic power, and other materials?

In addition to supplying electrical energy for national defense, we should also develop an extensive program of rural electrification to benefit farm areas.

13. *Housing program.*—The need for housing has been estimated to be as high as 10,000,000 new homes. A housing shortage existed before the war. During the war no new residential construction of any significance took place. Many returning veterans have further increased the demand for housing. Many industrial workers have been forced to move and double up with in-laws and friends because houses have been bought from under them.

Private capital cannot possibly meet this tremendous housing shortage. We need a million to a million and a half new homes a year for the next 10 years. A large portion of this need must be met by the Federal Government. The private construction now going on is producing houses in price ranges far above what our average American family, including veterans, can afford to pay. The Government must build low-cost public housing and also large housing projects to be rented to veterans and workers at cost.

At the present time there are two acts before Congress which would enable the Federal Government to aid in the critical shortage of housing. One is the Wagner-Ellender-Taft housing bill which would in part expand the public low-cost housing which was developed in the late 1930's. The other is the Taylor-Douglas Act which would enable the Federal Government to build nonsubsidized public housing.

CONCLUSION

Action by this Congress on all of these economic fronts would go a long way toward preserving the integrity of our democratic Government. It would go a long way toward promoting employment, production, and purchasing power. Our whole economic program must be geared into long-range objectives with a sound full employment economy. Such objectives were clearly set forth by the late President Franklin D. Roosevelt in his economic bill of rights:

"1. The right to a useful and remunerative job in the industries or shops or farms or mines of the Nation.

"2. The right to earn enough to provide adequate food and clothing and recreation.

"3. The right of every farmer to raise and sell his products at a return which will give him and his family a decent living.

"4. The right of every businessman, large and small, to trade in an atmosphere of freedom from unfair competition and domination by monopolies at home or abroad.

"5. The right of every family to a decent home.

"6. The right to adequate medical care and the opportunity to achieve and enjoy good health.

"7. The right to adequate protection from the economic fears of old age, sickness, accident, and unemployment.

"8. The right to a good education."

President Roosevelt, commenting upon this bill of rights, said, "All of these rights spell security. And after this war is won we must be prepared to move forward in the implementation of these rights to new goals of human happiness and well-being.

"America's own rightful place in the world depends in large part upon how fully these and similar rights have been carried into practice for our citizens. For unless there is security here at home, there cannot be lasting peace in the world."

The attainment of these goals is the duty and responsibility of this duly elected Congress which is supposed to represent the American people. Full employment and full production must be attained in this country if we are to preserve our democratic institutions. It is the ultimate responsibility of the American people—of industry, agriculture, and labor working together—to provide jobs for all. And as President Truman said in his message on September 6, 1945, "A national reassertion of the right to work for every American citizen able and willing to work—a declaration of the ultimate duty of government to use its own resources if all other methods should fail to prevent prolonged unemployment—these will help to avert fear and establish full employment."

I trust that this Congress will take the necessary steps to fulfill this Government's obligation under the Employment Act of 1946 to promote "maximum employment, production and purchasing power."

The program I have outlined above is idealistic. Its achievement may take years. Yet we of the CIO have no apology for its enunciation. We confess to idealism. We assert our belief in human values, for we are convinced that the idealist is the only practical man. It is because we so believe that we are going to continue to rally the people of America to a banner of peace and security.

Today many men in responsible positions are afraid of the future. Out of their fears has grown distrust of their fellow men; out of their distrust has come restrictive legislation in domestic fields, and a drift toward war in international fields. We want these men to examine our program. We challenge them to point out wherein its aims are inconsistent with human welfare.

We issue this challenge because we of the CIO believe the time has come for a positive program, one which translates abstract concepts of justice into human terms: jobs for peace, not jobs for war; conservation of our two great natural assets—men and land—so that generations yet unborn will rise and call us blessed.

Yes; we are idealistic. We do not apologize, for the dreamers of today become the heroes of tomorrow.

Mr. RIEVE. My name is Emil Rieve. I am the administrative chairman of the CIO Full Employment Committee, president of the Textile Workers Union of America, and vice president of the Congress of Industrial Organizations.

The function of this Joint Committee on the Economic Report is set forth in the Employment Act of 1946. Section V–3 of that act states—

> that it shall be the function of the joint committee * * * as a glide to the several committees of Congress dealing with legislation relating to the Economic Report, not later than February 1 of each year (beginning with the year 1947) to file a report with the Senate and House of Representatives containing its findings and recommendations with respect to each of the many recommendations made by the President in the Economic Report. * * *

The purpose of the Employment Act of 1946 was to provide a means whereby one committee of the Congress would map out in general terms for the benefit of the individual committees dealing with individual pieces of legislation an over-all economic program of economic legislation.

Mr. RICH. I will ask him to read that paragraph of your statement that you omitted.

Mr. RIEVE. I am perfectly willing to read it paragraph by paragraph for the benefit of the committee.

Senator O'MAHONEY. Just before you begin to read it, let me say, as one member of this committee, I have always hoped that these hearings would afford an opportunity to develop the questions and policies upon which there is a measure of agreement.

It is easy enough to quarrel about differences of purpose and misunderstanding of what has happened. I am frank to say to you, Mr. Rieve, I have read your statement, and, as one member of this committee who has been pressed for action by the committee ever since the very beginning of the year, it is perfectly clear to me that the committee could not possibly have complied with the strict letter of the Employment Act of 1946 at the beginning of this session.

Now, there are several reasons for that. In the first place, the original committee under the act was not appointed until late in the last session—so late that we were just about to adjourn before this committee was appointed.

I called the committee together because I was the first person named in the appointment. The committee having assembled, it organized. I was elected chairman.

On the committee, however, there were several members who were submitting themselves to the electorate at the following election—every Member of the House, Senator La Follette, Senator Murdock, and myself. When the election was over, one Member of the House had not been returned, two Members of the Senate had failed of election, the majority had changed in both Houses of the Congress, and, therefore, it would have been improper for me, as the carry-over chairman, to seek to direct the work of the committee.

In any event, the President's Economic Report was not submitted and could not be submitted until after the Eightieth Congress had assembled in January. It became necessary then for the committee to reorganize, and in less than 3 weeks after the beginning of the session the committee was reorganized.

Senator Taft was then elected chairman; vacancies were filled. Then the committee had to take the responsibility of gathering a staff; and, in all fairness, I believe that we cannot build a case for cooperation and understanding by opening with an attack upon the lateness of these hearings. I think the committee has done about as well as could be expected under the difficulties imposed on Congress by the so-called streamlining reorganization bill, which, in my opinion, has never helped Congress to perform its duties.

Mr. BENDER. The purpose of the reorganization plan of Congress was to simplify the work of the membership. But this morning I had five meetings scheduled for 10 o'clock. Where we formerly had a few subcommittees, we now have some 150. A Member of Congress may be a member of a number of these subcommittees whose meetings all conflict and it is perfectly apparent to me that the reorganization plan is not working well.

Senator O'MAHONEY. I am very glad that Congressman Bender has made that comment because it has been perfectly obvious to me for a long time that the economic and political problem which the whole country faces is the problem of central authority.

The reorganization bill was an effort to centralize the control of Congress. But what we really need is some form of decentralization, and I believe that perhaps a realization of that fact may result from the work of this committee.

Mr. HART. Mr. Chairman, may I point out for the sake of the record and not by way of defense that the Full Employment Act as originally written did not call for the submitting of a report of this committee by February 1 but by May 1. The alteration in the act comes from an amendment that was the result of the passage of the Legislative Reorganization Act, which took place much later in the session.

Senator O'MAHONEY. You are quite right about that. I am glad you mentioned it.

Mr. BENDER. May I add a further word regarding the Full Employment Act? About the only thing that was left in this Full Employment Act was the Joint Committee on the Economic Report. All the other meat was taken out of the coconut and this is the only thing we had left.

Senator O'MAHONEY. Well, with that I disagree most heartily.

Mr. BENDER. I say that as one who was one of the sponsors of that bill.

Senator O'MAHONEY. I know you were.

Mr. BENDER. And that is my opinion.

Mr. RICH. Mr. Chairman, the reason I want this in the record and the reason I called this to the attention of the witness, is that that paragraph going into the record without some comment being made on it is not fair to you as chairman of that committee and I am glad you made the explanation that you did.

Mr. BENDER. In other words, Mr. Chairman, Mr. Rich has not read the next page. Maybe he will burn up a lot more after he does.

Mr. RICH. I will just say this, Mr. Chairman. If you are trying to get some place in this country and trying to do things for the best interests of the country, it ought to be done harmoniously and for the purpose of trying to assist and do things that are for the good of the country and not to tear down. That is what I am interested in.

Senator O'MAHONEY. All right, Mr. Rieve, you may proceed.

Mr. RIEVE. May I proceed in my own way then, Mr. Chairman?

Senator O'MAHONEY. Oh, yes; indeed.

Mr. RIEVE. The purpose of the act was to see that the President's total program was studied and analyzed by Congress rather than to have its parts taken up on a piecemeal basis only.

This Joint Committee has failed to prepare any data relating to the economic report of the President presented to Congress early in January. This failure constitutes a violation of the intent of the act.

The committee, in pursuing this matter at this late date, should see that:

1. Its present hearings are clearly oriented toward appraisal of the economic report of the President.

2. Before the end of the session, and as quickly as possible, the committee should present—even though belated—a report of the type specified in section (b) of the act.

The Employment Act clearly sets forth as its objective that the Congress hereby declared that it is the continuing policy and responsibility of the Federal Government to promote maximum employment, production, and purchasing power. Legislative action in the field of economic programing should have as its fundamental objective the promotion of full employment and full production through the maintenance of maximum purchasing power.

Before I review the effects of the action taken by the Congress, Government, and business groups in the past few years, I should like to review briefly some current basic economic trends in our economy. These trends call for bold action by the Congress. We are now at a crucial turning point in our economic development.

Mr. RICH. Mr. Chairman, do you have a copy of the brief?

Mr. RIEVE. The one that I am reading?

Mr. RICH. We cannot follow it on this.

Mr. RIEVE. No. I think later I will call attention to the different subjects. For instance, on the first page I start with employment and you have a copy there that has got these subsections listed and you will be able to follow it, Congressman.

Before I review the effects of the action taken by the Congress, Government, and business groups in the past few years, I should like to review briefly some current basic economic trends in our economy. These trends call for bold action by the Congress. We are now at a crucial turning point in our economic development. It is difficult to predict the specific timing in the trends of employment, production, and purchasing power during the coming months. But the trends are distinct. We can examine the present situation as it stands today, weighing the favorable economic factors against the unfavorable ones. We can then decide upon a positive course of action.

I shall examine in turn the trends in employment, prices, profits, wages, savings, production, and other important economic facts.

Basic economic trends. You will find that on page 3 of my brief.

Employment: The Census Bureau of the Department of Commerce reports that employment in the month of May was over 58,000,000, an all-time peak. In spite of this high level of over-all employment, spotty unemployment situations are cropping up in various industries which bear watching. According to the Department of Labor, employment in manufacturing industries has declined for the past 2 months. A total of 251,000 workers has been laid off in various segments in manufacturing industries. In the textile and apparel industries, for example, employment dropped by 143,000 between March and May. The electric-goods industry has lost almost 60,000 workers and employment in the rubber-products industry has declined, including tires and tubes, about 16,000. In spite of attaining ever new levels of employment certain segments of our basic industries have already begun to feel the pinches of unemployed. Moreover, some slack is appearing in the form of shorter hours for present employees. We cannot look at the over-all figure of total employment which shows a favorable picture and draw the proper conclusions about economic developments.

Now, this is the picture on unemployment. I want to deal with the price situation now. This is on page 4 of my prepared statement.

Prices: In spite of the predictions by the chairman of this committee and many Senators and Representatives and by the National Association of Manufacturers and other employer groups, that once OPA was eliminated competition would soon take care of the price problem—the story has been different.

Wholesale prices of all commodities since June 29, 1946, just before OPA temporarily expired, have gone up 31 percent.

Mr. RICH. You are not reading from what we have here at all, are you?

Mr. RIEVE. Oh, yes.

Mr. RICH. Where is it?

Mr. RIEVE. At the bottom of page 4.

Mr. BENDER. Mr. Chairman, I would like to ask the gentleman to amplify on his statement here when he makes the allegation that certain Members of the Congress are supported by the National Association of Manufacturers. I am not conversant with the fact that they support candidates for office.

Mr. RIEVE. No; that is not intended. Their argument was supported by the National Association of Manufacturers, not necessarily that they were supported.

Mr. BENDER. I see. Well, the gentleman is aware of the fact that OPA controls were removed by the President.

Mr. RIEVE. I come to that. I cover that point; yes. I come to that.

This is 31 percent superimposed upon an already large increase of 46 percent between 1939 and the middle of 1946. Mid-June 1947 found wholesale prices of foods 43 percent above OPA price ceilings.

Mr. RICH. We would like to have a copy of what he is reading. We cannot keep track of it.

Mr. RIEVE. It is at the bottom of page 4.

Mr. RICH. It is entirely different from what you are reading and we cannot follow you at all.

Mr. RIEVE. The only difference, Congressman, is that paragraphs——

Mr. RICH. Well, you take this and give me yours then.

(Discussion.)

Senator O'MAHONEY. Proceed.

Mr. RIEVE. Prices: What has happened to prices in the months since the elimination of price control is obvious to everyone. Well, I have covered that.

What may happen to prices in the months to come is difficult to tell. It is admitted by all that prices are now too high. There seems to be little evidence that prices will decline, but much evidence to force us to consider higher prices as a definite threat. The responsibilities of this committee in promoting "maximum employment, production, and purchasing power," because of the price situation, are extremely grave.

Profits: Profits of all corporations on an over-all basis attained record highs during the year 1946. The annual rate of profits earned by all corporations, after taxes, in the fourth quarter in 1946, was 16.2 billion dollars. This is almost $6,000,000,000 more than the peak attained during 1943. All indications would lead me to believe that the annual rate of profits during the first and second quarters of 1947 were at levels in excess of those attained in the last quarter of last year.

There are many reasons why profits attained these exorbitant levels, not the least of which was the elimination of the excess-profits tax by the Congress in late 1945. However, a large degree of the increase in profits can unquestionably be attributed to the higher price levels. Of course, some increased profits have resulted from greater volume of sales. With anticipated higher levels of sales, industry could have continued to make fairly reasonable levels of profits without increasing its prices. But industry after industry took advantage of every situation. Even with the removal of excess-profits taxes and the reduction of corporate taxes, a greater volume of sales seemed not enough to satisfy the avaricious appetite of American industries. Not satisfied with all these factors which make toward higher profits, industry increased prices. By increasing prices they obviously pushed up their profit levels. It is these inflated price levels today which are at the root of our economic ills.

Had industry been content to operate at OPA price ceilings, we would not be in this difficult economic condition. But these inflated profit levels give this committee a tremendous responsibility for the welfare of the American people. If this committee is to carry out its responsibility under the Employment Act of 1946, which is "to promote maximum employment, production, and purchasing power," it must act boldly and fearlessly to stop the serious trend toward further inequitable distribution of our Nation's wealth.

Wage and salary payments: Examination of national income figures indicates that the trend continues toward a greater proportion going into profits, interests, rents, dividends, and a lesser proportion of our national income going into wages and salaries. In the first quarter of 1947 we find that wages and salaries dropped in their share of national income from 70.2 percent in 1944 to 62.2 percent in the first quarter of 1947, while, on the other hand, the share going to corporate profits after taxes increased from 6.6 percent in 1943 to 9.2 percent.

Workers have had their real purchasing power reduced by about $6 from the peak period 1945 to the present period in spite of the 1946 round of wage increases. A tabulation back to 1939 shows that the average worker in manufacturing industries earned $23.86 then as against $47.44 now, a dollar increase of slightly over 100 percent. However, in terms of purchasing power, a worker's family, with two children, finds its purchasing power over this period has increased by less than $6—from $23.62 in 1939 (after the payment of 24 cents in Federal taxes) to $29.39 in 1947 (after the payment of $1.27 in Federal taxes, and a loss of $16.77 as a result of higher prices). I take this comparison back to 1939 to answer those critics who have said that wage increases have been in excess of 100 percent.

Senator O'Mahoney. What is the source of these figures, Mr. Rieve?

Mr. Rieve. The Bureau of Labor Statistics.

Savings: The Federal Reserve Board has just completed a study of the savings of American families. This study shows that the trend toward accumulation of liquid assets or savings in the hands of high-income individuals continues. It also shows that many people were forced to dig into their savings in 1946 in order to maintain their standard of living. In spite of this fact the total amount of savings increased between 1945 and 1946. However, of the individuals earning less than $3,000, almost half showed declines in the amount of savings actually held, while approximately 50 percent of those with incomes above $3,000 showed not only no decrease in savings but a large accumulation of liquid assets.

Reports from the Treasury Department indicate that war bonds of the lowest denomination, series E, were cashed in at a greater rate in 1946 than in any previous year. It was only in the class E series bonds, which are bought by low-income individuals, that the amount of redemptions exceeded the amount of sales. This is one way in which the Federal Reserve Board's study indicates that the trend toward the accumulation of savings in the high-income brackets continues while a drop in liquid assets is occurring in the low-income brackets.

Purchasing power is now being bolstered by installment buying which is reaching all-time peaks. This is an unhealthy way to bridge the gap between income and purchases. Inflation first steals savings and then tends to continue on its merry way through expanding consumer credit.

Retail sales: The amount of retail sales has been increasing slightly from month to month in total value. However, when sales are adjusted for increases in prices, the volume has declined.

New orders: The amount of new orders placed with manufacturing establishments is beginning to decline. This is the repercussion coming from reduced volume of sales and is having its effects upon production, employment, and inventories.

On the favorable side of our economic ledger there are a few factors. There is still a large unfilled demand for many consumer goods—automobiles, electrical appliances, refrigerators, radios, houses, and so forth. This pent-up demand should be sufficient to maintain our economy at a high level for a period of years. However, the demand is based upon purchase at certain levels of prices. How many people who are in the market will actually purchase at current high prices remains to be seen.

Construction: We are beginning to witness some of the effect of high prices now in the construction field. The volume of new houses is falling off drastically from that which was anticipated at the beginning of the year, and off slightly from the number of new units started last year. The reason for the decline in the number of new units is attributed by the Federal Reserve Board in its June bulletin to the greater rise in prices and stiffer resistance to them than has been estimated. However, it cannot be overlooked that the number of new homes being started in the first 4 months of this year is higher than any other corresponding period of any other year since the middle twenties with, of course, the exception of 1946. So that while we are getting a slight decline in construction from 1946 we are operating at very high levels. However, as the Federal Reserve Board points out, prices of housing and real estate are too high to support the present boom market.

Foreign trade: Extensive foreign trade is aiding in keeping our economy operating at full levels. How much longer we can continue to export at these rates depends upon two very important factors. Unless we are prepared to import in larger quantities, or lend these foreign countries sufficient American cash, our export trade will of necessity fall off. It will fall off because the American money and assets held by foreign countries is quickly being liquidated.

Summary of economic trends: I have reviewed in some detail the general trends in our economy. It is hard to predict what will happen in the future because our economy is so complex, but I have pointed up a considerable number of trends which, if permitted to continue, will have a serious impact upon our future economy. For example, I think the high prices, the exorbitant profits, the redistribution of national income, the liquidation of savings by low-income individuals, the shift to consumer loans, the reduced purchasing power of the mass of American consumers, are all steps on the road to collapse of our economy. Whether the collapse comes within a period of 6 months or in a shorter or longer period of time cannot be predicted with any degree of accuracy, but it seems to me that the factors on the unfavorable side are so great and of such tremendous magnitude that steps must be taken immediately by this joint committee in carrying out an economic program which will "promote maximum employment, production and purchasing power."

Review of the Seventy-ninth and Eightieth Congress: I should like to point out how those steps taken by Congress, in my opinion, worked in the opposite direction of promoting full employment, production, and purchasing power. There has been no legislation passed by this Congress which, in my judgment, has been consistent with the principles set forth in the Employment Act of 1946.

Excess-profits tax: In 1945, shortly after VJ-day, the Seventy-ninth Congress passed a tax bill eliminating excess-profits taxes as of January 1946. This action encouraged big business to profiteer. Had the excess-profits tax been retained, profits would not have soared to their all-time highs in 1946 and continued into 1947. Was this action of the Seventy-ninth Congress in the interest of "maximum employment, production and purchasing power"? The answer is, obviously, "No."

OPA extension bill: Two extension bills were passed by the Seventy-ninth Congress. President Truman vetoed the first and was forced to sign the second if any kind of price control was to continue. Discretionary powers for checking inflation were given three administrative agencies by the second bill. What the Congress attempted to do in this bill was to pass some of the onus onto the administration and the administrative agencies, particularly the Price Decontrol Board established under the bill.

1947 tax bill: The Eightieth Congress, instead of devoting its time and attention to the basic economic issues facing our country, discussed a labor bill, sandwiching in two tax bills during the course of debate. One tax bill, dealing with excise taxes, has become law, extending the wartime excise-tax rates indefinitely. The second bill, which has subsequently been vetoed, would have given tax relief to those who least need it. It would have given tax relief to those whose liquid assets have increased. This tax would have increased the spendable income of a family of four, with a $2,500 annual income, by 8 cents a day. For those with incomes of $300,000 it would have increased their income $102 a day. I ask once again, Was this action designed to promote "maximum employment, production and purchasing power?" Again the answer is "No."

Rent control: The effects of the rent bill just passed by Congress will be to increase the cost of living. It threatens the tenant with either paying a rent increase now or being prepared to vacate when controls cease. Was this action of Congress in line with promoting "maximum employment, production, and purchasing power?" Obviously "No."

Wool bill: This bill flagrantly tears at the heart of our policy to promote reciprocal free-trade agreements. Certainly the passage of this bill is not in the interest of "maximum employment, production, and purchasing power."

Appropriations: Every effort has been made by this Congress to reduce the appropriations of administrative agencies. These Republican economy efforts are penny-wise and pound foolish, in my opinion.

Mr. RICH. If you are trying to do something here that is going to be successful, why do you make that statement?

Mr. RIEVE. Well, Congressman Rich, I think that there are certain things that Congress has done that I think we have a right to criticize.

Mr. RICH. That is right; you have.

Mr. RIEVE. And that is what I am trying to do.

Mr. RICH. You are trying to bring politics into this rather than to come here and give us a good statement of what good, sound, particular business citizens would do.

Mr. RIEVE. If you will look further down, if you will just bear with me for a minute, I am also going to criticize the administration.

Mr. RICH. Why, the administration is a Democratic administration.

Mr. RIEVE. I am going to criticize them just the same.

Mr. RICH. Go ahead and criticize both, but it seems to me if you want to do something that is constructive you will leave politics out of this statement.

Mr. RIEVE. I would like to point this out. Is this a Republican Congress or not?

Mr. RICH. Don't you know we have got a Democratic administration?

Mr. RIEVE. We have got a Democratic administration and a Republican Congress and there is something that the Democratic administration has done that I am in disagreement with and I intend to criticize them and there are certain things that the Republican Congress has done that I am in disagreement with and I intend to criticize it.

Mr. RICH. It seems to me if you read your whole report you have got more criticism than you have constructive enlightenment.

Mr. RIEVE. Oh, I haven't come to those yet. I am coming to that.

Mr. RICH. Go ahead.

Mr. RIEVE. If Congress wants to curtail the effectiveness of our basic laws, let it act out in the open by repealing the laws instead of curtailing the operation and enforcement of them by refusing to appropriate sufficient funds.

Congressional cuts in appropriations will not only drastically affect the successful operation of executive agencies but will curtail the development of necessary statistical and economic data.

We cannot hope to develop a sound economic program if we have inadequate information about our economy. The work of this joint committee will be seriously curtailed in its ability to "promote maximum employment, production, and purchasing power," because of inadequate data.

No positive economic action: There has not been a single step taken by this Congress which has been in the interest of stabilizing our economy. Bills were passed extending excise-tax rates, increasing rents, giving tax relief to the greedy and not the needy, placing stumbling blocks in the way of foreign trade, and restricting the labor movement. No bills dealing with health and security, or with housing, or social security, or fair employment practices or with a sound tax structure have been passed by this Eightieth Congress. The failure of this committee to take any action on the President's Economic Report to Congress stamps this Congress with the complete responsibility for the developing trends toward imbalances in our economic life.

Administrative agencies' action: The executive branch of the Government took steps following VJ-day and since which have not been in the best interests of promoting and sustaining a full employment economy . First the War Production Board hastily and prematurely removed most of the controls over priority and allocation of materials, giving rise to much maldistribution of materials during the reconversion period. This encouraged the black market which later, when OPA controls were removed, became the gray market.

In response to public pressure from meat packers, controls were removed from livestock and meats. Later this was followed by complete price decontrol.

But the Congress, because it gave the preliminary powers of decontrol to the Executive, and the executive agency itself, must assume the responsibilities for responding to pressure from self-interest groups demanding decontrol.

Business action: Business groups have played a large part in placing our economy in its present state of unbalance. Business increased prices without any relationship to costs, ability of the consumer to buy, or stability in our economy. Business so manipulated production and distribution during the dying days of OPA as to withhold production from the market in an effort to force OPA to grant price increases. This was possible because of monopoly concentration in American industry. This monster of economic concentration known as monopoly must be given serious attention by the Congress if we are going to "promote maximum employment, production, and purchasing power." Monopolies operate to limit production ad employment. They are able to force higher and higher prices. They have no difficulty in accomplishing these objectives as long as a limited number of companies control most of the output of basic industries. Monopoly control of American industries has been responsible, in the main, for the current level of high prices and profits and for the maldistribution in our national income.

A positive program of action must be taken by this Congress if we are to avoid a slump in our economy and an eventual depression. Such a program of action was in part outlined in the President's Economic Report to Congress. This committee has taken no action on this report and is now some 5 months overdue in its own report to Congress, required under the terms of the Full Employment Act.

CIO economic program: If the objectives of the Employment Act of 1946 are to be carried out, it is essential that this Congress take immediate steps toward adopting an economic program.

It is essential that steps be taken immediately to reduce food and industrial prices. Unless this is done, we can anticipate cuts in production and unemployment. A lower level of prices will only partially remedy the situation. Basically, the solution is an ever-expanding standard of living. This can be attained in part through the extension of the area of collective bargaining, through the extension of the right to join trade-unions of the workers' own choosing. Legislative action such as the Taft-Hartley bill curtails the area of collective bargaining, prevents extension of trade-union organization. This Congress, instead of passing legislation designed to curtail collective bargaining, should be passing legislation promoting trade-union organization. In addition to such legislation, positive action in many other fields of economic endeavor must be undertaken if this Congress is to tackle the fundamental issues of "maximum employment, production, and purchasing power."

I recommend the following legislative economic program for consideration:

1. Price board: I suggest that a Federal investigation board be immediately established by this Congress in cooperation with the executive branch of our Government. Representatives of Congress, the Executive, public-spirited citizens, labor, and agriculture should be members of this board. Their job would be to shed light upon the unwarranted levels of many prices. By use of public pressure and exposure of profiteering, we may be able to force lower prices.

2. Price control: We may in the coming months be faced with a serious inflationary advance in prices.

There are two factors which will play an important part in bringing on further inflationary price increases. The first is our export-import program. If this country goes in seriously for the Marshall plan for Europe, tremendous pressure will be brought on our productive facilities and capacities. These pressures for more and more food, clothing, and machinery will inevitably be transplanted into our price structure. I am not opposed to sending food, clothing, and machinery to rehabilitate the European Continent if such rehabilitation is advanced on the basis of need. But let it be fully understood that we must take positive action to stop price increases here.

Secondly, previous predictions of excessive crop yields may prove wrong if the torrential rains and floods continue ravaging the Midwest. Large portions of our crop already have been washed away; still larger portions have not yet been planted.

If these two conditions, increased foreign demands and crop failure, continue, we will inevitably have higher and higher prices. This will require that we reestablish price control and a rationing program. It is the moral obligation of our Government to see to it that if this inflationary spiral develops, the low-income individuals of America receive their fair share of food, clothing, and housing at reasonable prices.

3. Tax structure: Our tax structure must be revamped and overhauled. Those individuals who bore the greatest increases of taxes

during the war should be the first to benefit through tax revisions. This means an increase in personal exemptions from the present level of $1,000 for a married couple to $2,500, and the maintenance of an exemption of $500 for each dependent.

In addition to increasing the exemption, we must reduce and eventually eliminate those excise taxes which cut into purchasing power, savings, and our standard of living.

We must also revise our corporate tax system. Profiteering and excessive accumulation of undistributed profits must be eliminated.

A tax program should close the existing loopholes in our estate and gift tax structure. We should also eliminate the privilege of tax-exempt securities. We should require mandatory joint returns in all States, regardless of whether they have State community-property tax laws. Our capital-gains tax should be made more meaningful.

These and other tax revisions should be made if our tax structure is to be consistent with promoting maximum employment, production, and purchasing power. The CIO tax program has already been presented in great detail to the Senate Finance Committee.

4. Minimum wages: This Congress should immediately adopt amendments to the Fair Labor Standards Act, increasing minimum wages from their present level of 40 cents to 65 cents an hour, and advancing them to 75 cents an hour within 2 years. This would be a major step in improving the standard of living of millions of Americans living under substandard conditions.

5. Social security: The benefits should be greatly increased. In addition the extent of the coverage under the present law should be greatly expanded.

6. National health insurance and public-health program: This Congress should immediately adopt a national health insurance and public-health program. Along with this there should be a concomitant program of hospital construction.

7. Fair employment: Many of our worthy citizens are denied employment for reasons unrelated to skill, intelligence, character, or initiative, but because of color or creed. This Congress should pass a Fair Employment Practices Act which prohibits such discrimination. Such a bill would go a long way to improve the standard of living of these Americans who are denied employment consistent with their ability.

8. Aid to education: This Congress should adopt a Federal aid to education bill, giving equal educational opportunity to all.

9. Soil conservation: Some of the best soil in our Nation is going down the Mississippi and flowing into the Gulf of Mexico as a result of the torrential rains and floods in the Midwest. An adequate conservation program is sorely needed to preserve the fertile soil which produces abundant crops.

10. Monopolies: The Congress should make available to the Antitrust Division of the Justice Department, the Federal Trade Commission, and other agencies working in this field, Federal appropriations consistent with the tremendous work and responsibility which they must carry out. This Congress should also give the Federal Trade Commission authority to stop mergers which occur through large corporations acquiring the assets of smaller firms. In this fight against monopoly control I would suggest the creation of a Federal Monopoly Investigation Board. Duties of this Board would

be to examine the extent to which our economy is under the control of monopoly groups. The findings of such a Board would help shed considerable light upon the necessary actions which this Congress must take, in addition to trust busting which has not proved too successful.

11. Farm program: Every working farmer has a right to a decent standard of living. The absentee farmer has benefited greatly during the war years and subsequently. An over-all farm program must be developed to insure an equitable distribution of farm income to all farm groups. Until such a long-range program can be developed price support for farm commodities should be continued, using, however, a revised and modernized parity formula.

The Government should liquidate surpluses and distribute foods through a food-stamp plan. This is highly consistent with improving the standard of living of our lowest-income groups.

12. River valley authorities: Other valley areas besides the Tennessee should benefit from flood-control measures. While developing flood-control measures, we can take advantage of this water power to develop electrification.

13. Housing program: The need for housing has been estimated to be as high as 10,000,000 new homes. We need a million to a million and a half new homes a year for the next 10 years. A large portion of this need must be met by the Federal Government. The private construction now going on is producing houses in price ranges far above what our average American family, including veterans, can afford to pay. The Government must build low-cost public housing and also large housing projects to be rented to veterans and workers at cost.

Conclusion: Our whole economic program must be geared into long-range objectives, with a sound, full employment economy. Such objectives were clearly set forth by the late President Franklin D. Roosevelt in his "economic bill of rights."

The attainment of these goals is the duty and responsibility of this duly elected Congress which is supposed to represent the American people. Full employment and full production must be attained in this country if we are to preserve our democratic institutions. It is the ultimate responsibility of the American people, of industry, agriculture, and labor working together to provide jobs for all.

I thank you, gentlemen.

Senator O'MAHONEY. Do you have any questions, Congressman Bender?

Mr. BENDER. I have only this comment to make. You have a very fine statement of program. But I wonder if you read the statement of program of the Labor Party in England before the last election? I am sure if you did you found that they painted a glowing picture of what would be done, but when the Labor Government got the responsibility they found themselves faced with a dilemma. When they had the responsibility they were faced with the problem of putting their program into effect, and they failed miserably because they had not taken into account many of the factors that go to make up the economy of a country.

It is grand to have ideals and I commend the gentleman for making a very fine statement; but when you are faced with the responsibility of putting these ideals into practice you often find a wholly different situation from what you had thought.

Does the gentleman have any comment to make about the Labor Government in Great Britain and its failure to perform as it had promised the people?

Mr. RIEVE. Congressman Bender, I happen to have had the opportunity of being in Great Britain on two occasions during the war and also right after the war. I had extensive conferences with the leaders of the British Labor Party up there during the war, when they were serving in a coalition government, and also since the war.

I don't intend to involve myself in a discussion of whether the British Labor Party program is working or is not working and the reasons for its not working. I think that it can be reasonably said that without their program the British people would be worse off than they are today. I think that that is even conceded by the conservatives of Great Britain.

Now, I am not one of those that say that anybody can draft a program on paper and that that program can be made to work by the wave of a magic wand. I think there are a lot of bugs in it, there is no question about it, and I don't say that this Congress and the administration both can put all the things that I have enumerated in effect overnight because probably they cannot; but they must have a goal toward which to strive.

I am sorry to say that I have not seen any attempt in the last couple of years to strive even in that direction.

Mr. BENDER. You mean on the part of our people here?

Mr. RIEVE. All our people.

Mr. BENDER. Coming back to the British Government, why has production fallen off in Britain as it has?

Mr. RIEVE. I think fundamentally the British problem is the coal problem. Great Britain needs coal, and anyone familiar with Great Britain knows about that industry. Great Britain's coal industry is the worst coal industry I know of; I mean it is not the most pleasant. Coal mining is not the most pleasant operation, and when you have mines like they have in Great Britain the problem becomes more difficult. Summarizing the situation, until such time as Great Britain finds an answer to the coal problem, which is the basis for all other production, they are going to be in difficulties.

Now, they nationalized the coal mines, they appropriated a lot of money to modernize the coal mines, but one depends on the other. They can't build the machines to modernize the coal mines until they have coal to build the machines with, so the problem is probably a slow one; but I repeat, if they did not adopt the program they are trying to adopt, the plight of the British people would be worse than it is today.

Mr. BENDER. Do you believe, Mr. Rieve, that nationalizing industry, as is in progress by the Labor Government in Great Britain, is a desirable thing?

Mr. RIEVE. It might be desirable for Great Britain. If you ask me whether it is desirable for this country, I don't know.

Mr. BENDER. You don't think so.

Mr. RIEVE. I wouldn't say I don't think so, but I would say that you cannot continue to have in the coal industry and in any other industry the adopting of any proposition unless you have some regulation.

Mr. BENDER. Mr. Rieve, what is your opinion regarding industry's cooperation in this country—with the program of maximum production?

Do you feel that there is a conspiracy on the part of industry here in this country not to have maximum production and great volume in order to keep itself going?

Mr. RIEVE. No; I don't. I don't think there is any conspiracy among American industrialists to lay down on production. I will say this, that in monopolistic industries there is always the problem of controlling production and prices, but I wouldn't say that there is any conspiracy on the part of American industry not to produce and I think the record shows that they have produced.

Mr. BENDER. The day before yesterday the president of General Motors was here and testified that the automobiles that they were producing are bringing hundreds of dollars to the dealers in excess of the price charged by them.

Mr. RIEVE. You mean as a result of black marketing?

Mr. BENDER. No. As a result of the demand on the part of the public. Don't you think that the demand on the part of the public influences prices?

Mr. RIEVE. Well, it has been said that it does, but I can't follow why it should cost more to produce because there is a demand. It seems to me that industry ought to be satisfied, no matter how great the demand is, if they get a reasonable profit on their product, because to adopt the other theory means that industry is trying to charge what the traffic would bear and if there are scarcities they are going to keep on charging what the traffic would bear.

I find fault with that theory. I don't find fault with an industry making a reasonable profit, but shortages should not influence the cost of production.

Mr. BENDER. Well, does the gentleman believe that you can make people good by law?

Mr. RIEVE. No; we can't make people good by law, but by the same token I will not say that we ought to abolish punishments for murder because murders occur. I think that there are certain laws that are fundamental, that we must have, because people are not good, and that does not mean all people are not good. I have faith in the American people, labor, industry, and everybody. They want to do the right thing.

It is not a question of anybody sitting up nights and being vicious and conspiring how to do the American people out of anything. It isn't that type of feeling that is in my mind.

Mr. BENDER. Does the gentleman feel that we did not have any black markets when the OPA was in existence and flourishing?

Mr. RIEVE. Oh, sure we had black markets.

Mr. BENDER. Were they doing a land-office business?

Mr. RIEVE. I think that the black market was bad and I think it was overdone, too, so I don't think that you stop black marketing by legalizing black markets. We abolished OPA in order to do away with the black market and then all prices became black-market prices. What we have today we accomplished by that.

Mr. BENDER. Do you have anything to support that statement?

Mr. RIEVE. Well, I think the cost of living figures will bear it out. Meats, for instance, are selling today above what was being talked about as black-market prices for meat in the height of the OPA.

Mr. BENDER. But in your statements you indicated that prices were affected because of crop failure and because of exports.

Mr. RIEVE. Well, in my statement I mention the future. I am facing the possibilities.

Mr. BENDER. Don't you have those conditions at present, especially in regard to exports of food and coal?

Mr. RIEVE. Up to now we have had no crop failure. We may have as a result of the floods. We did some exporting. For instance, we are exporting on the average a billion dollars a month. What we are doing is this, and I am not going into a long history, but we bailed ourselves out of a depression in 1932 or 1933 by priming the pump. We spent a lot of money internally to create employment or what have you. Whether that was wise or not, I don't want to go into that type of discussion. We are beginning to have another recession. We were beginning to have another recession in 1937 and 1938 and the war came along in Europe.

Mr. BENDER. We were beginning to have another recession? In my home town of Cleveland we had a hundred thousand people on relief on WPA at $15 a week.

Mr. RIEVE. All right. We had another one and the war came along.

Mr. BENDER. Didn't we try all sorts of economic panaceas during that period in order to stimulate full employment?

Mr. RIEVE. Yes.

Mr. BENDER. And we tried Government spending by programs such as a good many of our people are advocating today? Wasn't that tried?

Mr. RIEVE. Yes; it was.

Mr. BENDER. And it failed.

Mr. RIEVE. Well, I wouldn't say that, Congressman, that it failed, because I don't know what we would have had without those programs. Today again, in my opinion, we are bolstering up our economy, we are keeping on priming the pump by the medium of large exports, whatever they are, to foreign countries. We are spending, for instance, far more money today priming the pump for European exports than we ever did at the height of our depression in this country, internally.

Mr. BENDER. But the depression lasted in spite of priming the pump and in spite of the Government throwing in billions of dollars to provide Government employment and all sorts of things and if the war had not come on, as you have indicated, possibly there would have been no end to the kind of thing we had during those years. We had in 1940, according to the American Federation of Labor, 11,000,000 people out of work in this country.

Mr. RIEVE. What did we have in 1932?

Mr. BENDER. I don't know. Maybe we had almost as many.

Mr. RIEVE. It was estimated at about sixteen, seventeen million.

Mr. BENDER. But the fact of the matter is that there was no great improvement after years of experimentation with Government employment and Government expenditures and all kinds of panaceas.

Mr. RIEVE. Well, of course, that is your own opinion. I think there was a marked improvement between 1932 and 1936, 1937, and 1938. In spite of the fact that we were beginning to get another recession, there is no question in my mind there was a marked improvement.

Senator O'MAHONEY. May I make an observation, Congressman Bender? I want to call attention to two statements which have been made in this hearing. In the first place, I am inclined to believe, Mr. Rieve, that you have made a mistake when you say that the Government now is spending far more to prime the pump than it did before.

Mr. RIEVE. It is not done with that intention.

Senator O'MAHONEY. During the depression we expended approximately twenty or twenty-five billion dollars to prime the pump in the United States, to carry on what Mr. Bender calls the "panacea programs," but, on the other hand, I think in this discussion we are digressing from your testimony. If I understand your program correctly, you are not advocating Government spending as an objective to which this committee should give any attention, are you?

Mr. RIEVE. That is correct; I am not.

Senator O'MAHONEY. And your statement, as I understand it, is that during the depression the Government did follow a program of public spending, but you are not recommending such a program but rather recommending action to be taken now which will avoid a recession. Is that correct?

Mr. RIEVE. That is exactly why my program is in the field of social legislation, in the field of putting light on some of the improper practices that maybe some of our people are engaged in. Through these mediums of attempting to bring our economy into gear, it will not be necessary to resort to public spending. I am trying to prevent the creation of unemployment that will compel Congress to appropriate money in order to prevent people from starving.

Senator O'MAHONEY. Now, may I ask you a question designed to elicit information as to your fundamental concept of the position that Government should play in this program?

Do you believe that Government controls over our economy should be established, or do you believe that Government controls should be held to a minimum and a policy enacted by Congress which would stimulate the initiative of private individuals and private organizations?

Mr. RIEVE. I think, Senator, we can overdo both or underdo both. I think that I can answer your question.

I do believe in planning. Now, to what extent, that is something else again. If our economy can be operated at full tilt with as little regulation as possible by Government, that is fine and that is desirable, but if it cannot operate at full tilt without Government regulation, then we must have Government regulation.

Now, there are many things that are happening in this world and I don't think we ought to lose sight of it. Take the foreign situation, whether we like it or not, whether it is for good or evil, in the European civilization they have collectivism in practically every country to a lesser extent or to a greater extent. In some countries they have it to the fullest extent. They not only regulate the economy of the country, they are even trying to regulate the air that people breathe. That is an exaggerated statement. On the other hand, they have this situation.

I just don't visualize, let us say, in our foreign export situation, how XEY company in the United States, employing a thousand people, can successfully compete with a Russian, a British, French or any other country's government monopoly. I don't think it can be done.

Now, it may be that we may have to pool our resources in order to deal with this type of thing, because it is immaterial to these nations. If they need dollar exchange, for instance, costs don't enter into the picture. If they want to unload a certain amount of goods of a given kind in order to get that dollar exchange, they are going to unload it no matter what the cost is.

Now, how can an individual employer in Kalamazoo compete with that type of a situation? It obviously calls for Government interference of one kind or another. And there are many of these types of things that we are facing today and I don't think we ought to kid ourselves about it and it is not a question of whether we like it or not. Those are facts that are facing us.

Senator O'Mahoney. I was glad to note your statement that there is no general conspiracy on the part of business to reduce employment or to reduce the standard of living.

I was interested also to note that with respect to international trade you express opinions similar to those expressed by other witnesses. For example, Mr. Hoffman, head of the Studebaker Co. and Chairman of the Committee on Economic Development, testifying on June 25 before this committee said:

> We can exchange these things with the people of other countries who, themselves, make other things available for trade—other things better or cheaper or different than we can or want to make.

Then Mr. O'Neal testifying yesterday, the president of the American Farm Bureau, said:

> Unless we are again to lay the groundwork for an economic collapse, we must develop a realistic trade program. We cannot export unless we are willing to import.

Now, with those two statements you appear to be in agreement, do you not?

Mr. Rieve. I am, although with the details I may be in disagreement. I happen to be in an industry that is a consumer goods industry. If we are going to export we most likely will export heavy goods. We are going to export locomotives, trucks, tractors and all of these things.

What are we going to import? We are probably going to import shoes, we are probably going to import textiles, we probably are going to import these types of consumer goods.

Now, we must watch ourselves that we don't put these consumer industries in a tailspin, by not being prepared. Once we are prepared about what we can do for our economy it is all right. Maybe it is better for us to abandon to a large extent these consumer industries and concentrate on the heavy goods industries, and have the people that are employed in the consumer industries find employment in other industries, but we will have to make that decision as a nation, otherwise we are going to be in hot water.

Senator O'Mahoney. Well, now, those recommendations of yours are bound to be helpful to the producing industries, to management as well as to workers.

Mr. RIEVE. I think so.

Senator O'MAHONEY. I noted with a good deal of satisfaction your statement with respect to the farm program. You are giving support to the farm program in order to insure an equitable distribution of farm income and of moneys to all farm groups. What I am trying to do in citing these points is to indicate that, after all, there is quite obviously an area upon which we can agree—I venture to say that when the report of this meeting is made the public will learn more of your criticism of this committee than of the constructive suggestions you have made. I should like to emphasize what you have said about your disbelief in a general conspiracy upon the part of business. It seems to me that these statements of yours point the way to cooperation between labor and the business community and the rest of the population.

Mr. RIEVE. Senator, it is unfortunate, but I cannot control our press. When they dig up the sensational things you know it is news. When a man bites a dog, that is news but that is unfortunate.

Senator O'MAHONEY. I was not holding you responsible for that.

Mr. RIEVE. No. I had some criticism to make about the administration and Congress and I think probably my criticism was a little more pointed than it otherwise would have been, because there is no use denying the fact that I and many other people in this country feel sad about what happened the beginning of this week.

Now, you can't expect us to hide our dissatisfaction with congressional action on that very vital matter and we intend to holler from the tops of the White House or the Capitol, if necessary, against those grievances that we feel we have.

Senator O'MAHONEY. In view of the fact that you made a reference to the wool bill, I feel it incumbent upon me to make at least a brief reference to the subject because I think there is another side of the picture which has not been shown.

Mr. RIEVE. I happen to be in textiles, Senator. I am acquainted with all the angles of it.

Senator O'MAHONEY. But you also know that the domestic producer of wool has only a small share of the domestic market.

Mr. RIEVE. Yes.

Senator O'MAHONEY. I am sure you realize that this particular phase of international trade illustrates the point which you made about excessive Government controls, namely, that the British Government has established a state monopoly for the sale of the wool produced in Australia, New Zealand, and South Africa; and consequently, without this wool bill, the individual producer of wool in the United States would be competing not with independent producers in Australia, South Africa, and New Zealand, but rather with the state-selling monopoly of Great Britain—a significant factor which should be mentioned.

Mr. RIEVE. So that I may not be misunderstood, Senator, I think about a year or a year and a half ago I testified before a congressional committee on this whole question of traffic. I happen to be one that recognized the need for a quota system, and that recommends a quota system of imports for wool. I am sorry to say that our Under Secretary Clayton disagrees somewhat violently with me on that subject. Be that as it may, I still believe in that type of thing. I don't want to leave the impression that I am one of those free-traders that wants to open up our doors and let everybody come in.

Senator O'MAHONEY. That makes it doubly interesting, because it is on the basis of the establishment of quotas, as well as import fees, that Secretary Clayton has opposed the wool bill.

Mr. RIEVE. I know.

Senator O'MAHONEY. And it has been upon that ground that it has been almost universally characterized in the press as a flagrant invasion of the——

Mr. RIEVE. It is imposisble in this type of thing to give fully my position on the wool situation.

Senator O'MAHONEY. Now, in the course of your statement you pointed out several other significant things, but I wanted to call attention particularly to the fact that although you mentioned that there is some unemployment, you pointed out also that employment is now at a peak.

Mr. RIEVE. It is at a peak, there is no question about it, but it sort of changes, Senator. For instance, we had noted a gain in employment of about a million and a half, a seasonal gain in agriculture. I am alarmed because it dropped in manufacturing. In the textile industry it has been in pretty bad shape in the last few months.

Senator O'MAHONEY. There isn't any doubt about it, but the over-all picture is one of peak employment.

Mr. RIEVE. That is correct.

Senator O'MAHONEY. Then the over-all picture with respect to crop products is that they are likewise at an all-time peak. The national income is also far greater than the income that the people of this country ever enjoyed in any prewar period. That is correct, isn't it?

Mr. RIEVE. That is right.

Senator O'MAHONEY. So we have an economy now operating——

Mr. RIEVE. Full tilt.

Senator O'MAHONEY (continuing). Full tilt.

Mr. RIEVE. An economy operating full tilt. I don't like its distribution.

Senator O'MAHONEY. You are making suggestions to correct the distribution?

Mr. RIEVE. That is right.

Senator O'MAHONEY. And I am sure you would not want this committee to recommend anything that would stop the operation of the economy.

Mr. RIEVE. No; I want to further improve it. For instance, to my way of thinking American industry is making more profits than it is good for it to make in the long run. I think it ought to be satisfied with less.

Senator O'MAHONEY. Let me ask another question which you touched upon in your discussion of housing. Do you agree with the testimony which came to us yesterday or the day before from Mr. Colt of the Bankers Trust Co. in New York and from other witnesses yesterday that we have now come to a period of developing resistance to high prices?

Mr. RIEVE. That is correct.

Senator O'MAHONEY. Mr. Colt's testimony was that we have completed the transformation from a seller's market to a buyer's market.

Now, I want to ask you whether, in your opinion, there is such a transformation? If there is such a transformation, have we not some reason to believe that we may have reached the end of the upward trend of prices?

Mr. RIEVE. Well, it may be correct that we have reached the stage where it is now no longer a seller's market but it is a buyer's market, but it is only a buyer's market because people haven't got the means of buying. What are we going to do in the meantime? Are we going to wait till this buyer's market reaches the levels where prices are going to come down and in the meantime have all of the people not housed?

Senator O'MAHONEY. Well, Mr. Rieve, it cannot be true that people are unable to buy if employment is at the peak. Now, I am quite willing to agree with you that real salaries and wages represent the only segment of our economy in which there has been a decrease since 1946, but while it is true that the take-home pay is not as great as it was the receipts by way of salaries and wages are considerably greater than they were in previous peacetime eras. They are certainly much greater than they were when the Government was spending billions for WPA and other types of made work.

So my question to you is: If we are going into a buyer's market and the inflationary spiral is hesitating somewhat, what is the best method now of preventing a new demonstration of wage and price increases that will just throw this inflation further beyond our reach?

Mr. RIEVE. Well, I think this: First of all, let me say this about housing: What I am concerned with first of all is people that are in the low-income brackets. Assume that a $6,000 house is selling for twelve or for ten thousand dollars and assume it drops $500, these people still can't afford to buy that type of house and yet they need housing. Therefore, we must fill that gap.

I am not too much concerned with a person in the $10,000 bracket. I am concerned with a person in the $2,500 bracket and others below the $3,000 bracket.

As far as wages are concerned, and this is where Congress has an obligation I beleve, by and large I think the cycle of wages is spent, has sort of spent itself. The Steel Workers, for instance, signed an agreement for 2 years. All right, they can reopen wages in a year. President Murray announced that there will be no interruption of production for a period of 2 years. Other basic industries have adjusted their wages.

We have agreements in New England in the cotton-textile industry. I publicly announced 4 or 5 weeks ago that we will not ask for a wage increase in this re-negotiation conference.

Senator O'MAHONEY. In what period is that?

Mr. RIEVE. Our contract for this year, for 1947. We will not ask for a wage increase for this year. Now, what can we do to halt the rise of prices? We can't carry out our part of that type of a bargain if prices keep on skyrocketing.

Since the announcement that I made in Boston that we will not ask for a wage increase prices have risen. Not only prices, generally, prices in the textile industry have risen and it becomes a very difficult job for me to tell my members that, "For the good of the economy you can't ask for more money at the present time," when they read that an employer has increased his selling price again.

If we can keep prices from rising—and as far as wages pushing prices up—I think we are in pretty good shape as a Nation, but if prices rise, whatever it is caused by, whether it is for reasons of exporting to foreign countries or reasons of floods, whatever it is, we will have no choice but to ask for further increases.

Therefore, when it comes to the job of Congress—I think I am very practical. There is no point of my advocating that we ought to bring in price control again, because I might as well ask for the Atlantic Ocean. There is no use kidding myself. I am advocating something else—why can't Congress and the executive branch set up some investigating committee, with no power of government back of it outside of their spot of light on this situation? Let it hit whatever it may.

Senator O'MAHONEY. Aren't we doing that?

Mr. RIEVE. Well, I don't know whether we are doing it to the fullest extent.

Mr. BENDER. Mr. Chairman, I had not completed my questioning.

Senator O'MAHONEY. I am sorry.

Mr. BENDER. I would like to ask a few questions more.

Mr. RICH. I have a question to ask.

Senator O'MAHONEY. Mr. Bender, would you yield to Mr. Rich? He wanted to ask a question on this particular point.

Mr. BENDER. Certainly.

Mr. RICH. On that particular point he makes a statement that will be in the record and I will read it:

> This joint committee has failed to prepare any data relating to the Economic Report of the President presented to Congress early in January. This failure constitutes a violation of the intent of the act. It indicates that the leadership of the join committee has no interest in enacting legislation which will "promote maximum employment, production, and purchasing power."

He has already answered that question before you asked it and it is in the record and many other statements that were made here by the gentleman indicate that the committee during the time that you were chairman did not function and naturally conditions were different last year and I am not trying to criticize you, but I say that the intent and purpose of the committee then and the committee now was to work in harmony for the purpose of carrying out the act and I believe that the statements made by the gentleman would indicate entirely his attitude toward what the committee is trying to do.

Senator O'MAHONEY. I think the fact that Mr. Rieve is taking advantage of the opportunity we have extended to him proves that he knows the committee is trying to do something.

Mr. RIEVE. When you were chairman, Senator, there was no Presidential report, Presidential economic report, available. I just want to make that correction.

Mr. BENDER. The other evening a group of businessmen invited the members of this committee to spend an evening with them. They offered testimony regarding experiences in their own businesses and it was a very profitable meeting for all of us.

Now, the point was made in this matter of housing that even though the price of a $10,000 house may have decreased $500, a low-income man still cannot afford to buy it.

The other evening it was brought out during the discussion that bricklayers who formerly laid 2,000 bricks a day were now laying only 200 a day.

Yesterday afternoon I had a meeting with the CPA as a result of a man criticizing the CPA in not granting a permit in his community. I had in my office a CPA official and the builder and I asked the question of this builder, "Is it true that where a bricklayer laid 2,000 bricks a few years ago he was now laying about 200 bricks?" And he said, "That is true."

Well, now, doesn't that enter into the cost of the home? Is there some soldiering on the job on the part of the worker in this regard? Does that register with you at all?

Mr. RIEVE. Let me answer this. If he were laying 2,000 bricks before and is laying 200 now, obviously it is soldiering. I am advised, for instance—and I don't want to discuss in too much detail the construction industry because I am not too familiar with the industry—I am advised that in New York City, for instance, they are laying 850 bricks a day; I will put it that way. I don't know what the situation is elsewhere, but I am also advised that part of the reason for the bricklayers not laying their full load maybe is because they are not able to get enough bricks and they have to wait around for a load of bricks. When a load of bricks comes in they lay that, and then wait again. In other words, the flow of raw material is not steady, and that may account for it.

Now, however that may be, Congressman, when we pick out one industry that may be true. I think that your figures will show—I think that the Department of Labor, Bureau of Labor Statistics, has issued some such figures for the first 3 months of this year—that the productivity of American labor has increased by about 5 percent. Now, I can only go by this type of thing. That would not show that the American labor as a whole is soldiering, because productivity as a whole has increased.

Mr. BENDER. I think the witness' statement is correct. I wondered what you had to say regarding the production in your line of business.

Mr. RIEVE. Oh, in our industry they are stretching it out right and left and any other way.

Mr. BENDER. How many members are there in your union?

Mr. RIEVE. In my union we have a dues-paying membership of about 450,000.

Mr. BENDER. Does anyone who wants to join the union have any trouble getting in?

Mr. RIEVE. No; indeed not.

Mr. BENDER. Anybody who wants to work can join your union?

Mr. RIEVE. Anybody who wants to join our union can get in and I will say the initiation is $1.

Mr. BENDER. I wondered if you would care to say what the maximum hourly wages are in your industry.

Mr. RIEVE. Yes; in the cotton-textile industry in the North the average hourly rate today is about $1.02½ an hour as against about 97, 98 cents in the South. In 1939 it was about 45, 50 cents an hour.

We have an 83-cent-minimum wage in the cotton-textile industry in the North as against 80 cents in the South.

The average wage in the woolen industry is now about $1.17, $1.18 an hour, and that includes organized and unorganized men. The minimum wage in the woolen mills is 90 cents an hour. In the carpet and rug industry the average wage is probably $1.25 an hour, and so forth and so on. In the hosiery industry it is probably more than that; it probably runs close to $1.40 an hour.

Senator O'MAHONEY. Mr. Bender, may I interrupt? This is off the record.

(Discussion outside the record. Mr. Rieve thereupon left the witness stand.)

Senator O'MAHONEY. Mr. McCormick, will you come forward, please?

The committee is very glad to welcome you, Mr. McCormick, the chairman, as I understand it, of the board of the International Harvester Co. and one of the board of directors.

Mr. McCORMICK. Yes, sir.

Senator O'MAHONEY. You may proceed.

STATEMENT OF FOWLER McCORMICK, CHAIRMAN OF THE BOARD, INTERNATIONAL HARVESTER CO., CHICAGO, ILL.

Mr. McCORMICK. Mr. Chairman and gentlemen, it is a pleasure to be here today. I apologize for a cold in the throat which settled down so that my talking is not as good as it should be, but I have a very brief statement here to present, and I don't think it will take more than 15 minutes, at the end of which I am entirely open for any questions that I can answer.

My name is Fowler McCormick. I am chairman of the board of the International Harvester Co., whose main offices are in Chicago. I am appearing at the request of the committee for the purpose of discussing some recent actions by our company which may be of interest to the committee in connection with its inquiries into economic matters.

I do not appear before you as an economist, nor with specific suggestions as to legislation. It will rather be my purpose to review with you what our own company has done this year in regard to prices and wages and our reasons for taking the actions we did.

With your permission, I should like to give you a few facts about our company and the scope of its operations, so that the committee will have that information as a background against which to consider our actions.

Our company now consists of 23 factories and raw materials operations in the United States, as well as more than 100 sales branch houses. We are a manufacturing company and our selling activities are largely in the field of wholesale selling although we have a number of retail establishments to sell our motor trucks. Most of our equipment is sold to users by approximately 9,000 International Harvester dealers and distributors.

We are engaged in several different industries and our company is therefore organized into several operating divisions. Our sales for the first 6 months of this year were $292,569,000, of which $128,034,000 consisted of motor trucks; service and service parts, $59,419,000; farm implements, and so forth. I shall not bother now to give you all the detailed figures.

We have at the present time about 40,000 stockholders.

Senator O'MAHONEY. What is the average stock holding, Mr. McCormick?

Mr. McCORMICK. Well, I haven't got that figure, Mr. Chairman, but of our total preferred and common roughly a hundred shares, Mr. Chairman. That is not an exact figure. We could furnish that.

Senator O'MAHONEY. All right.

Mr. McCORMICK. We have about 87,000 employees in the United States, most of whom work in our manufacturing plants. The great majority of our employees are members of one or another of a large group of labor unions with whom we bargain collectively. At present we have a bargaining relationship with more than a dozen international unions represented through more than 170 locals. The unions with which we deal include CIO unions, A. F. of L. unions, and a few independent unions.

If I might interject at that point, Mr. Chairman, I think it may be timely to briefly say that our company proposes no change in its attitude toward the unions with which we deal because of the passage of the recent labor legislation. We continue to have a desire to cooperate with these unions. We feel this is no time for management or representatives of capital in any way to express hostility to unions or in any way to take advantage of the situation. This of all times is the time to get together with those unions with whom you deal in the benefit of the three parties, the stockholders, the employees, and the customers for whom we are working.

Senator O'MAHONEY. I think that is a very constructive statement, Mr. McCormick.

Mr. RICH. If that attitude is taken, Mr. McCormick, between labor and management, certainly we should succeed whether we have legislation or not, shouldn't we?

Mr. McCORMICK. That is my belief definitely.

Mr. HART. Or despite the fact that we have the kind we have.

Mr. McCORMICK. May I proceed?

Senator O'MAHONEY. Go ahead, sir.

Mr. McCORMICK. It has been suggested that you would be interested in hearing from me about our price reductions of last March, with special reference to the reasons for them and the factors that made them possible. And I would like to emphasize, if I may, at this moment that Iam not bringing this before you in the light of any boastfulness or anything of that nature but simply in the nature of a case study of what was done, with the idea that one might generalize something from it of value.

These price reductions were announced on March 8 and affected 163 basic models of tractors, farm machines, industrial power equipment, and motor trucks. We estimate they will save the users of our products approximately $20,000,000 a year. The price reductions covered 12 models of farm tractors, 123 models of farm machines, 16 models of industrial tractors and engines, and 12 models of motor trucks, as well as certain motor-truck attachments.

Individual reductions ranged from $2.50 to $300 and from 1 percent to 23.8 percent. We could not reduce our products uniformly and some we could not reduce at all, for some products were making money, others were breaking even, and a few were losing money.

So we reduced prices where we could and as much as we felt we could. For example, on our largest selling farm tractor, the Farmall-H, the price reduction was $125, or 10.6 percent. The automatic pick-up hay baler was reduced $75, or 4.1 percent. The self-propelled combine was reduced $122.50, or 3.4 percent.

To explain how we were able to reduce prices and why we did so requires an examination of our postwar planning on the one hand, and of our fundamental policy on the other.

Our postwar planning began in 1943, as soon as we found that we could carry on our war work satisfactorily and still devote some time to consideration of the future. One of the first results of our planning was to reorganize completely the management set-up of our company from the old functional basis to a divisional basis. That reorganization was carried out both to improve our war production and to improve our postwar production. It has been highly effective in both respects.

Toward the end of 1943 we made a complete review of the engineering design of all our products. We laid plans to make modifications and improvements in our existing products to bring them fully up to date. We then turned our attention to totally new products upon which our engineers had been working and we found that engineering had progressed to a point which made it practical to plan the manufacture of important new machines at the war's end.

Among these were the Farmall Cub tractor, now in production, which is the smallest real farm tractor ever made; the mechanical cotton picker; the one-man automatic hay baler; the sugar beet harvester; the self-propelled combine; six new models of motortrucks designed for west coast and mountain use; and our new TD-24 crawler type tractor, which is the largest tractor of its kind yet built.

Having listed these products as ready to go, we studied the estimated demand for both our revised products and our totally new products. We projected that into estimates of manufacturing space and equipment that would be required. It was immediately apparent that our capacity was entirely inadequate to fulfill the requirements.

We required additional plant sites. Having previously purchased a site at Memphis, we next bought sites at Wood River, Ill., and Fort Madison, Iowa. We planned a building program. With the end of the war, however, we found that our building program had largely become a buying program, for several reasons. First, scarcities of building materials and other factors made it evident that building new plants would be a long process. Second, the level of building costs made it financially desirable to buy existing space if possible. Third, customer demand was extremely urgent.

We therefore purchased from the Government an airplane plant at Evansville, Ind., which became our refrigeration factory; an airplane plant at Louisville which became our Cub tractor factory; an airplane engine plant at Melrose Park, Ill., which became part of our Industrial Power Division; and a gear plant in Chicago which we have converted into a manufacturing research center. In addition we bought from private owners a small malleable iron foundry at Waukesha, Wis., and a small plant at Stockton, Calif., for use in west coast farm implement production. We leased a small factory at Emeryville, Calif., for motortruck production and we have proceeded with construction of our large new Memphis works, which we expect to occupy this summer, and which will produce the cotton picker, the hay baler, and a line of southern implements.

In connection with this program we sold a small farm implement factory at Chattanooga and discontinued operations in a small implement factory at Huntington Park, Calif. So we have a net addition of six plants. The planned total employment of these new plants is approximately 21,000 men and at present they employ about 10,000.

Senator O'MAHONEY. That represents, of course, a large capital investment.

Mr. McCORMICK. A very large capital investment, Mr. Chairman. We have publicly stated that our postwar program of plant expansion and equipment would require in excess of $150,000,000.

Senator O'MAHONEY. And has that expansion been impaired or retarded at all by the cost of materials or the shortage of materials?

Mr. McCORMICK. Yes, Mr. Chairman; it has been considerably retarded by the difficulty of acquiring building materials. In one case, in the case of Wood River, as I have indicated previously we had to change our complete plans. We had planned to build this Cub tractor factory at Wood River but when we got to talking to the contractors they were so indefinite as to the time that they could complete that we switched our plans quickly and bought the Louisville plant and went there with the Cub tractor.

Mr. BENDER. Do you believe that the company's policy has promoted full production and full employment?

Mr. McCORMICK. Definitely, Congressman.

Mr. BENDER. That is, that is the policy of your concern.

Mr. McCORMICK. Definitely, to the extent that it is possible, and I might point out in connection with that question that, as I said before, our present employment is approximately 87,000 people. When these new plants are fully equipped and manned we will add 11,000 more. That would be 98,000.

Mr. BENDER. What was the peak of your employment?

Mr. McCORMICK. The peak prewar, the average for the year 1937 was the peak, which was 60,000.

Mr. BENDER. And during the war?

Mr. McCORMICK. During the war we went, I should think, to about 65,000—69,000; I beg your pardon.

Mr. BENDER. So you are employing about 20,000 more people now than you employed during the war?

Mr. McCORMICK. We are employing now about 18,000 more and when we get eventually equipped and manned we will have 98,000 as against 69,000.

Mr. RICH. The improvements that you have made in agricultural machinery certainly have been a great aid to agriculture and will be.

Mr. McCORMICK. It is so stated, Congressman. I think it is not unreasonable to say that the mechanization of our farms during the past 40 years, culminating in the increased mechanization just prior to and during the war, was one of the things which made it possible to produce the volume of food we did during the war.

Mr. RICH. Your representatives in the District have invited all the Members of Congress out here to Western Maryland, to see this new Cub tractor, and I am sorry we have been too busy to go out there. We would like to have a ride on it.

Mr. McCORMICK. We would like, indeed, to have you, Congressman, see it. We hope you will do it later. We will appreciate it.

In addition to the new plants, we have made sizable investments to improve and reequip our existing plants.

This whole program of organization changes, product engineering and acquisition of new plants, incomplete as it is, is the thing that has made it possible to produce in far greater volume than before the war.

The greatly increased production resulting from this program has brought with it an increase in our profits which made it possible to undertake our program of price reduction and wage increases of last spring.

The other factor underlying our price and wage action was a policy which is the cornerstone of all our other policies and procedures. We have held for many years that when a company attains a certain size, it becomes in a sense a social institution, and as such should be operated not in the interest of any single group, but equally in the interests of the three groups most vitally concerned in our business—our stockholders, our employees, and our customers. As will be readily recognized, this is not new as a concept for it has been expressed from time to time by business men and others. The novelty lies in the fact of a company openly proclaiming this to be its basic policy and endeavoring to carry it out to the best of the management's ability.

Examined in the light of this policy, our actions in the months from February to April of this year form a rounded picture of execution of that basic policy.

When we became aware in February of the levels at which our sales were running and made estimates of our earnings for the first quarter, we raised the quarterly dividend on the common stock to a rate of $4 a share yearly. The payment in the previous 3 years had been $3 a share.

Following this action, we reduced our prices in March on those products on which it was possible to do so, and in April our negotiations with the unions terminated in wage increases which followed in general the pattern of the electrical and automotive industries.

Stated in dollars on an annual basis, the three groups benefited from our increased production as follows: Stockholders, $4,000,000; customers, $20,000,000; employees, $25,000,000.

We thus, by virtue of our increased sales and earnings, have been able to act in the interests of stockholders, customers and employees and in doing so we were carrying out our well-established policy.

It is not particularly unusual for a company with rising earnings to increase its dividend rate to stockholders. It is also quite common for a company with rising earnings to consider increasing the wages of its employees. It is unusual, however, for a company with rising earnings to reduce prices when it is not compelled to do so by competitive conditions or a decline in demand.

Prices are ordinarily reduced if they have risen too rapidly or too much. But that was not our situation. From January 1941 to

March 1947 our prices had not gone up so much or so fast as many other prices. For example, the average price increase for all manufactured products during that period was 63.7 percent, and for metals and metal products the increase was 41.2 percent. Yet our motor truck prices had risen an average of 35 percent, our industrial power prices an average of 34 percent and our farm machine prices an average of only 25 percent.

Prices ordinarily are reduced, too, if they are out of line with competitive prices or if they encounter resistance by customers. That was not our situation. Our prices were comparable to those of competitors and the demand for our goods was such that we could expect to sell all we could make this year and for a considerable time in the future.

In addition to these factors, there were important uncertainties in our picture. One of these was the size of the possible increase in our wage and salary bill. At the time we reduced prices, there was no established national pattern on wages and we did not know what our ultimate wage settlement would be. Similarly, we were in a period of considerable uncertainty as to the prices of materials and purchased components.

There was one thing, however, that was very clear to us. That was that industry seemed to be caught in a vicious upward spiral of wages and prices. Businessmen hesitated to reduce prices because they could not be certain what the future held as to wage rates or business volume. Yet the increasing of prices or failure to reduce them necessarily had a tendency to limit volume and to encourage further wage demands. To us, the only way out of such a vicious circle of higher prices appeared to be to break through.

A few months earlier, the American people had insisted that the Government withdraw from its attempts to control prices in peacetime. That restored to business and industry its historic share of responsibility in the establishment of prices. We recognized fully that not all business could reduce prices. We knew that not all business could reduce prices by the same amount.

But our company felt a duty to act as promptly as possible and in our case the business outlook made it possible to move toward the goal of lower prices. We took what the Army calls a "calculated risk" in the hope of accomplishing something worth while.

Summing up, I would say that our price reductions were the result of two factors; first, our long-time policy of operating in the interests of customers, employees, and stockholders; second, our desire to contribute whatever we could toward checking the upward movement of prices.

In discussing our action at the time, we stated that it was our view that "Any price is too high if it can be reduced." That is still our belief and our continuing policy.

Senator O'Mahoney. What has been the result of these price figures?

Mr. McCormick. In what way, Mr. Chairman?

Senator O'Mahoney. Well, in your sales, for example, and in your level of profit. Are the results what you anticipated?

Mr. McCormick. In physical figure, in physical volume figures there has not been any change at all, because we have sold exactly what we would have sold at the other prices.

Senator O'MAHONEY. Now, the reason for that ought to be stated.

Mr. McCORMICK. Because the demand is so very large. With farm prices as high as they are and the farmer enjoying a very high level of income, the farm demand is bound to be very strong.

Senator O'MAHONEY. Then you have a much larger market than you can take care of?

Mr. McCORMICK. Very much, sir.

Senator O'MAHONEY. And you could sell everything that you produce at a very much higher rate?

Mr. McCORMICK. I believe that is true. Now, the actual effect of that is that our dollar volume of sales is reduced by the amount of $20,000,000 on an annual basis. Of course, this will only be in effect for 7 months of this year, so that would not reflect for 1947, but on an annual basis it will reduce ours by $20,000,000; that is not all ours, because they are sold through dealers. It will reduce ours by 16 million.

Now, that also has an effect on our profits. Our profits are going to be naturally lowered by that decrease in prices and our profits are naturally going to be lowered by the increase in wages and salaries.

Senator O'MAHONEY. Then you are telling the committee and the country that as a deliberate policy your corporation has decided to take a lower profit than it could make, for the reason that you believe that you have a social responsibility not to add to the spiral of prices and wages, is that right?

Mr. McCORMICK. We believe that that is the long-range sound point of view, Mr. Chairman.

Senator O'MAHONEY. Reference has been made to it. Your company has been able to do it. Dare I ask you your opinion as to whether other companies could follow a similar principle?

Mr. McCORMICK. I have no valid judgment on that point at all. I am quite sure that there are many companies that could not think of following that. On the other hand, some companies, as you know, have done a price-reduction job on their own accord, and it is entirely possible that there are other companies that could do it if they would see their way to do it. That is the only type of statement I think I could make on it.

Mr. RICH. May I ask a question right there? Isn't it a fact that there are many companies that have followed that policy throughout the years, and it can be followed better by the companies taking the same position which you have than could be done by legislation?

Mr. McCORMICK. I am heartily in favor of that point of view, of the self-management of industry. In other words, that industry will gradually come to the point of view of operating in the interest not only of stockholders but also of employees and customers, and there is a great movement in that direction.

Mr. BENDER. What would be your guess as to the percentage of foreign business? What is the volume of foreign business that you do as compared to that which you do here in the United States?

Mr. McCORMICK. This table, Congressman, shows that in one sense. In other words, this shows the relation of our exports from this country to foreign countries. It does not, on the other hand, show the manufacture of our plants which we have in several foreign countries. This simply shows exports from this country to other countries.

Mr. BENDER. Do you have plants in foreign countries?

Mr. McCORMICK. Yes, sir; we have plants in England, Sweden, France. We have one in Germany. We have one in Australia.

Mr. BENDER. Are they doing a healthy business now?

Mr. McCORMICK. The Swedish plant is doing a good business. The German plant was practically destroyed. It is in English hands, as you know. It is endeavoring to put out spare parts. The English situation is a new one; it just started before the war. The Australian plant is operating very well.

Mr. BENDER. In some of these countries where they have considerable hunger and strife, do you find that there is any agency of government or the United States Government endeavoring to supply them with machinery so that they might make themselves self-sufficient?

Mr. McCORMICK. Supplying them with industrial machinery or farm equipment?

Mr. BENDER. Farm equipment.

Mr. McCORMICK. Well, as you know better than I do, through UNRRA there was a considerable export of farm equipment and I think that has come to an end at the present time. I know of no other Government action along that line at the time.

Mr. BENDER. Since we are embarking on a program—we have appropriated $350,000,000 recently for feeding Europe and there are other appropriations pending—don't you think it would be far more desirable for the Government to spend money to purchase farm machinery rather than to purchase guns and ammunition? That rather than sending them the sort of thing that creates strife, to encourage peace and create on the part of those people a desire to work in order to make themselves self-sufficient?

Mr. McCORMICK. Congressman, I don't think that I am competent to answer that question. I can say that certainly the export of equipment is a way to increase production of food abroad and I believe that that principle was recognized in some of our Government planning along that line. On the other hand, in our situation, where shortages are so great, that imposes a problem. American farmers need that equipment and as you will see by our figures it is only a small percentage of our production that goes abroad. Even so there is a strong feeling, many feel that it is too much, so that if we had to do more we would run into trouble, I think, from a great many of our farmer friends.

Mr. BENDER. Your production is behind schedule then?

Mr. McCORMICK. It is not so much behind our planned schedule but it is way behind the demand, we are tremendously behind the demand. We cannot see the bottom of that demand at all.

Mr. BENDER. How many months or years would it be before the supply meets the demand? Have you any thought about that?

Mr. McCORMICK. That will depend, of course, on the levels of farm prices, but granting that there is not too drastic a decline in farm prices in 1948 I think that the demand would hold very strong through 1948 and again, if the decline in farm prices would not be too drastic in 1949 I should think there would be a good demand in 1949. Beyond that I cannot see.

Mr. BENDER. What influence does the export of farm commodities have on the price of farm commodities here? Do you have any thought on that subject at all?

Mr. McCORMICK. The export of farm commodities?

Mr. BENDER. The export of farm commodities such as wheat, oats, and other farm products, foodstuffs, and so on.

Mr. McCORMICK. What effect does that have on the prices of commodities here?

Mr. BENDER. Yes.

Mr. McCORMICK. Well, I am no farm economist or in any way an agricultural economist, but I think it has been very broadly accepted that the export of any commodities must narrow the market and, therefore, affect the price.

Senator O'MAHONEY. I may say, Congressman, that some of the members of the staff are checking that very problem now. I think that the indications are that the percentage of our agricultural production which is being exported is not as large as one might expect, but that, I think, will be fully developed later.

Mr. BENDER. I have no other questions.

Senator O'MAHONEY. Senator Watkins?

Senator WATKINS. Mr. McCormick, I would like to know the method of distribution of your products. You claim that your customers will get a substantial benefit out of these price reductions. How do you manage to do that when the automobile companies claim they can't do it?

Mr. McCORMICK. We have had in our industry some trouble along the same line, Senator. There is the occasional tractor that is sold to a farmer and then resold for a much higher price than is warranted.

We have complaints on that from all over the country, but I don't think it is as prevalent in the farm-implement industry as it is in the automobile industry. I think that we are very fortunate in the fact that, to our knowledge, with very slight exception the dealers have passed on to the users the price reductions that we have put into effect, and when I spoke of the $20,000,000, that is a reduction in suggested list price, extended by the amount of equipment, so that the farmers will actually be paying that much less over all. To us it only means a $16,000,000 reduction. Does that answer your question?

Senator WATKINS. I am trying to find out if the farmers are actually getting these products at these reduced prices.

Mr. McCORMICK. That is our understanding.

Senator WATKINS. Or is that going into the hands of some dealer?

Mr. McCORMICK. We do not think so. We have nationally advertised this policy in farm papers, dailies, weeklies, and monthlies so that the farmers will be aware of it, and many of the dealers have run ads to the same effect.

Senator WATKINS. Are the dealers your agents, or do they operate their own businesses independently?

Mr. McCORMICK. They are entirely independent dealers. We contract with them.

Senator WATKINS. So far as you know, then, most of this saving of $20,000,000 will actually be passed on to the farmers?

Mr. McCORMICK. That is absolutely my belief, with very slight exception.

Senator WATKINS. Did you ever make any efforts to find out if this actually happens?

Mr. McCORMICK. Oh, yes; we have checked it through our branches.

Senator WATKINS. What would be your policy if the dealer was not cooperating and did not pass this on to the farmers?

Mr. McCORMICK. We cannot determine the dealer's resale price.

Senator WATKINS. Well, would you cancel his agency, or did you ever have that thought?

Mr. McCORMICK. We would not cancel his agency just on that one cause alone, Senator, but we certainly would discuss it with him; we certainly would urge him to pass it on.

Senator WATKINS. Have you made an investigation to find out if your dealers are actually passing this saving along?

Mr. McCORMICK. Yes, sir; we are continually making these investigations.

Senator WATKINS. What is the result of that investigation?

Mr. McCORMICK. Definitely that it is being passed on.

Senator WATKINS. There was a statement made by the previous witness that I would like to comment on, with respect to monopolies. Is there a monopoly in the manufacture of farm machinery?

Mr. McCORMICK. No, sir; definitely not.

Senator WATKINS. Could you give us an idea of how many manufacturers there are in this field in the United States?

Mr. McCORMICK. I do not know the exact number, but there are several hundred small manufacturers. In the larger manufacturers there are ourselves and John Deere is two; Allis-Chalmers; and Case; Minneapolis-Moline; B. F. Avery; Massey-Harris, which is a Canadian concern but has an American affiliate; and Oliver Farm Equipment Co.; and, of course, in the tractor end we have the Ford Motor Co. with a large production of tractors.

Senator WATKINS. You do not know of any monopoly then in this particular field of basic business?

Mr. McCORMICK. No, sir; there is no monopoly in our field.

Senator WATKINS. Can you tell us what proportion of your product now is going overseas?

Mr. McCORMICK. Yes, sir. This compilation, Senator, shows that in 1947 for the first 6 months of the year 11.6 percent of our production in this country was shipped overseas.

Senator WATKINS. Is that sold through some governmental agency in the foreign countries or through our own Government agency?

Mr. McCORMICK. That is sold in several different ways. We have foreign subsidiary companies in several countries. It is sold to them and they resell it through their dealers or jobbers. Another portion of it is sold in those countries where we do not have subsidiary companies to jobbers. So it is either sold through subsidiaries of our company or through jobbers.

Senator WATKINS. Not through Government?

Mr. McCORMICK. Not through Government in any case that I know of, except UNRRA. There may be a Government control on importation. We believe there are none at the present moment. There might have been some wartime sales.

Senator WATKINS. Are those cash sales to buyers?

Mr. McCORMICK. We are selling everything for cash abroad at the present time. In other words, we ship nothing except for cash.

Senator O'MAHONEY. Congressman Hart?

Mr. HART. Mr. McCormick, what percentage of the total sales of your company are accounted for by farm machinery?

Mr. McCORMICK. That would vary in different categories. That would run from 2 or 3 or 4 percent on some things and a larger percentage on others.

For instance, suppose we came out, as we are at the moment, with the new Cub tractor. Nobody has that in production at the present time. We will get a large percentage of that business. Now, as others come into the field that percentage will go down. That is true in our industry.

For instance, before we came out with the one-man hay baler there was a firm in Michigan making it, so they had all the business, but after we came out with it we shared the business. It will vary, as I say. On a new thing, take the cotton picker. We are the only people producing a mechanical cotton picker at the moment, so we get a hundred percent of the business. On the whole I think you could take a figure from 25 to 40 percent of the business.

Mr. HART. Would you be good enough to explain at some greater length the difference between the functional division and the other—I mean the difference between the functional basis and divisional basis of organization—to which you refer at the bottom of page 3?

Mr. McCORMICK. By functional basis I mean an organization in which the organization lines are set up according to functions, such as sales, engineering, manufacturing, accounting, and so forth. That is what we technically call a functional basis.

A division, in the sense of the word in which we are using it here, is a complete, let us say, designing, manufacturing, and selling organization in itself.

For example, we used to have a manufacturing department for our whole company. In that department was a man who was in charge of the motortruck plants, another one who was in charge of the tractor plants, another one who was in charge of the farm-equipment plants, but all in one department; that was the manufacturing department.

Then in our sales department we had a specialist on this and a specialist on that. Now, that is a good organization up to a certain point. In our belief, beyond a certain point it becomes unwieldy and inefficient, so we took the man from the manufacturing department who was concerned with motortrucks and we put him in the motortruck division. We took the man from sales who was interested in motortrucks and we put him in the motortruck division; the same with engineering; the same with accounting.

So then you have the divisional type of organization. That is a group of men having different functions and headed by a general manager. Then you do the same thing for tractors, for farm implements, and so forth. It is called a divisional type of organization. Now, you still have on the staff side a vice president of manufacturing, who is a staff man. He advises all the operating divisions.

Mr. HART. A sort of compartmentalization.

Mr. McCORMICK. Right. It is what they call in the Army line and staff organization.

Mr. HART. These price reductions which you put into effect—would they have been possible without the postwar technological advances that your company made?

Mr. McCORMICK. That is a very difficult question to answer exactly. I would like to say that I think they were very greatly helped by technological advances. We have in our new designs endeavored constantly to cut cost down, to lower the prices of farm equipment, motortrucks, and tractors, to get the prices down. So, therefore, we are taking advantage of every technological improvement that we can, both in design of the product and in manufacturing process. I cannot answer your question specifically, Congressman. I wouldn't know how to do that.

Mr. HART. Well, the answer is that it is not clear that you could not have reduced the prices except for those advances. You may still have been able to do it if those advances had not been made.

Mr. McCORMICK. Let me put it this way. I have tried to point out that our price reductions and wage increases of this year were made possible and brought about by two things: One, our postwar program, and, two, our company policy. Those are the two things which caused it. Now, if the demand had been great enough for our products, even though we did not redesign them, and we had been able to increase our production as much as we have, I do not doubt that we could have made an increased profit on our prewar design and then we probably could have made some reductions.

Mr. HART. The reason I asked the question is that so many industrial magnates, if I may use that term, seem to indicate that a price reduction is almost altogether dependent upon technological advances, and that in industries over which they preside, where there has not been any such recent technological improvements, it is impossible to reduce prices. It seems to be only from technological advances.

Mr. McCORMICK. I think there is considerable truth in that contention.

Mr. HART. Generally speaking.

Mr. McCORMICK. This is so because I do not see how you can continue to raise wages or cut prices unless you can increase productivity. Unless you can increase the spread between what you can get for your product and the cost of the product there just isn't any other place for it to come from.

Now, the greatest source, I think, of increased productivity and of lower cost is technological improvement, and let me also say management improvement. I think that we can all learn better and more economical ways of doing things. I believe that to be so.

Senator O'MAHONEY. Well, does that mean the building up of the larger units at the expense of the smaller units, competitive units?

Mr. McCORMICK. Not necessarily, Senator. There are certain lines of industrial activity in which size, I think, is required.

For example, let us take the Cub tractor, if we may take one. That plant at Louisville is going to produce Cub tractors and two others of our small tractors. The total investment in that plant is some $53,000,000, and I don't know how you could produce those tractors at the price we are going to sell them with any less investment.

Naturally, that makes it obvious that a small company could not produce a Cub tractor at a similar price that is as good as the Cub. So I think there there is a place for big industry.

Now, on the other hand, I am equally forceful in my belief that the small company and we can live together and live together profitably. We buy from 10,000 different concerns. We sell to 9,000 dealers.

Senator O'MAHONEY. That is the question. How are we going to do it? Your statement tells us of some very advantageous results which have come from your policy. It is perfectly clear when you point out that increased production has enabled you to reduce prices and to increase wages, yet your statement also shows that in expanding your productive facilities you have purchased certain independent plants. You not only purchased Government plants, but you also purchased the plants of small independent enterprises in two or three instances.

Mr. MCCORMICK. Right.

Senator O'MAHONEY. Now, to that extent the result was to increase the proportion of the total output which is controlled by your company and to decrease the percentage of the total output from small or so-called independent companies.

On the other hand, as you have just said, the management of a large company, when it takes an enlightened view of its social responsibility and tries to decrease prices and increase wages, may be in a much better position to reduce prices than a small company, particularly with a product which requires so much capital investment. The small company, following a similar policy, would seem to be unable to acquire the market, could not build up the volume of sales that would enable it to compete. Is that a situation that is developing?

Mr. MCCORMICK. I don't think it can be described quite as concretely as that, Senator. Now, I would like to make it entirely clear, if I may, that we in our company are earnest and sincere in the belief that both in our own industry and in any industry there is a great place for the small company. There are certain things in our industry that the small company can make more economically than we can.

I have cited here the sale of our Chattanooga plant. That was a sale to a small manufacturer, the Harriman Co. They can do a better job at a lower price than we can. That may sound strange to you.

Senator O'MAHONEY. What is their product?

Mr. MCCORMICK. They are going to make small plows, cultivators, and tillage implements for the Southeast. We sold to them because we know they can do a better job than we can. That is an interesting thing. In other words, we bought from a small manufacturer and we have also sold to a small manufacturer.

Senator O'MAHONEY. What you are saying is that there are certain products which big industry can produce more efficiently and other products which the small unit can produce more efficiently.

Mr. MCCORMICK. I heartily believe that.

Senator O'MAHONEY. How can we define the line?

Mr. MCCORMICK. You cannot lay down a general law. I think it is something that we have to meet in each particular instance. That presents one situation, that we have bought a small industry and we have sold to a small industry.

Now, let us take the case of the Stockton plant that we referred to here, which was a small industry. The Stockton plant was one instance of a number of instances that have come to our attention over the postwar years, of a man who had built up a small business, did a wonderful job and he was faced with the question, "Shall I go ahead or shall I not go ahead?" I don't want to do any undue selling here, but there is a report by the Committee for Economic Development that I think is a great piece of work on the subject of small business and if I might have the privilege of recommending that to your attention I think that covers a great many of these problems that we are discussing.

This man said to himself, "I cannot go on just the way I am. If I am going to stay in business I must grow. That requires capital. That means I will have to bring other people in." He owned the whole company. He is the type of fellow that did not want to bring other people into his business.

He then decided, "Well, I would rather sell it." Now, you can say that he could have sold to another small manufacturer, and so he could. We happened to come along and needed what he had, but I would like to point out that, fortunately, we have acquired those facilities for producing something very much needed on the west coast, for making this sugar-beet harvester that we have mentioned. There is no other place we can put it. It is going to give the farmers on the western plains and on the west coast something that is very much needed.

We have done that. That man has taken the money that he obtained and has gone into a small business and, fortunately, I am very happy to say he is going to be our distributor. He took the capital we provided him, took it from a manufacturing business and put it into a distributing business and now he is still in small business.

Senator O'MAHONEY. I was interested to learn in response to Senator Watkins' inquiry that your company apparently does not attempt to control the policy of the distributors. Is there anything else that you care to say about the gray market in developing your answers to Senator Watkins? I notice we have developed that word instead of the black market here in these hearings.

Mr. McCORMICK. I do not believe I have much to add, Mr. Chairman, except to say anything we can do to stop it we try to do. I don't think it is nearly as prevalent in tractors and farm equipment as it is in the automobile end as I have heard about that.

Senator O'MAHONEY. Does that mean that you haven't seen much evidence of a desire on the part of the ultimate purchaser to pay a price greater than the list price?

Mr. McCORMICK. The evidence is there but it does not seem to be there in the quantity; for instance, we hear of an M tractor that sold for $83,000, and things of that type, fantastic prices. That would be resold by the user, by the farmer who bought it.

Senator O'MAHONEY. May I ask you what the ratio of profit is to dollar volume of sales?

Mr. McCORMICK. In 1946 it was, after taxes, 4.58, nearly 4.6. We hope it will be better this year. We think it is too low for a normal year, Senator, and we are doing our best to make a better return for the stockholders this year.

Senator O'MAHONEY. Any other questions?

Senator WATKINS. I would like to ask one question about the foreign prices. I understood you sold part of your product to the foreign countries. What differential is there between the foreign sales and the sales in the United States as to prices?

Mr. McCormick. We price all our exports at a level which will represent a parity, so to speak, with the domestic price, plus costs of packing and getting the equipment to the sea coast, and so forth. In no case do we sell abroad at a lower price than in this country.

Senator Watkins. On the whole the price would be higher in the foreign country?

Mr. McCormick. On the whole they would be higher.

Senator Watkins. Wouldn't you actually get higher prices here for that part of your product which goes to the foreign country?

Mr. McCormick. Get a higher price?

Senator Watkins. Wouldn't the product sell more per unit than it did in the United States?

Mr. McCormick. You mean on such products that we sold abroad we would get higher profit here?

Senator Watkins. You get more money than you would from the American business proportionally?

Mr. McCormick. Not as far as the sale of the same piece of equipment goes. For instance, let us take a tractor manufactured in Chicago. We would not make any more money on that if it were sold abroad than if we sold it in Illinois. Does that answer your question?

Senator Watkins. How much of your product do you sell abroad?

Mr. McCormick. It is a historical pattern. That was a pattern that grew up prewar. That was about the way we worked it. Now, postwar we think it only fair, as we are so short of goods all over, to have a sort of informal rationing pattern, you might say, of our farm equipment. In other words, we follow the prewar pattern with our dealers and also between domestic and foreign.

Senator Watkins. Are your foreign factories running to capacity?

Mr. McCormick. The Swedish factory I should say is running well. The French factory I think is running about 60 percent. The German factory is just running for the manufacture of small parts, and they are putting out a few tractors, although I don't know how they are doing it. The English factory is just getting started and the Australian factory is working at good levels.

Senator O'Mahoney. Mr. McCormick, I have often wondered when conducting hearings of this kind what the result would be if we turned the witnesses over to the newspapermen and let the newspapermen ask the questions. It was brought to my mind now because I have received a note from one of the correspondents here who wanted to know whether I had asked you if you had any opinion as to whether other producers could reduce prices and increase wages as you have. Of course, I have already asked that question of you, but since the question has been repeated I wonder if you would restate your answer in order to get the record quite clear to those who may desire the report of this hearing.

Mr. McCormick. I think my answer to that, Mr. Chairman, is that I have no very close connections with other companies. I do know a lot of businessmen, but I have no close connections with the operations of other companies and I have no accurate knowledge of other companies whether other companies could or could not reduce.

Senator O'MAHONEY. But you did, I think, say some might follow.

Mr. McCORMICK. There is a supposition. I presume that there are some that cannot and I presume some could that are not doing it.

Senator O'MAHONEY. May I ask you this question publicly, though I think I asked you privately, whether the fact that there is a closer bond of community between management and ownership in the International Harvester Co. gives you a greater opportunity to follow these social policies which you have outlined, than would be possible for large companies in which there is not that combination of ownership and management.

Mr. McCORMACK. That is a very difficult question to answer, Senator, and I don't think that I can answer it in a very simple way.

Our company inherits a tradition, of which I am very proud myself, of trying to treat our employees as human beings and that goes way back to my grandmother and my father and uncle who were in the bsuiness for many years. No doubt that tradition is helpful in formulating and putting into effect some of the policies that we are trying to carry through.

Now, as I have said to you before, I personally like to look on my position as one of a professional manager rather than an owner of the business. I would be more proud of anything that I can do as a professional manager than I would as an owner.

I think it is quite true in many cases, as you say, that an owner can do things more rapidly and do some things better than can be done by a manager, but on the other hand, I don't think it is necessarily true in every case and I for one am terribly interested in the thought of business management as a profession, with equal rank and standing with the medical profession or the legal profession and then I do think that professional management must have a business philosophy which is a social philosophy. In other words, then, I think you would achieve the idea that you have in mind a business manager and not an owner, will still direct the business in the social interest.

Senator O'MAHONEY. Thank you very much, Mr. McCormick.

Mr. Rieve, will you come forward? Senator Watkins has a question he would like to ask.

Senator WATKINS. Under "Monopolies" you say,

> A large part or number of our inflationary prices can be traced to the monopolistic combinations which exist in basic industries.

I wondered if you would be willing to submit to us a statement amplifying that statement and go into details, give us the names of the industries and who is bringing about those monopolies, because that is a very strong statement.

Mr. RIEVE. Senator Watkins, I would be happy to do that, but while Mr. McCormick is here I would like to say this. You asked him a question, "Is the farm-equipment industry a monopolistic industry?" Of course, that depends on what one means by "monopolistic." According to my information 90 percent of the farm equipment is made by six companies. Is that monopolistic or is it not?

Senator WATKINS. Well, you probably could point out the industries and the names and if you have information which is actually backing up what you said there I would suggest that you furnish that to Mr. Clark, the Attorney General, because I should think he would be very happy to get it if that is what is holding up prices. I wonder if you could simplify that.

Mr. RIEVE. I would be happy to do that.

Senator WATKINS. If you could submit a statement and point out to us the facts on which you base that conclusion in your mind.

Mr. RIEVE. I would be happy to do so.

Senator O'MAHONEY. Perhaps it might be well to remark that the word "monopoly" is used in two senses. It is used in the sense of the conspiracy to monopolize and it is also used in the sense of describing a condition of industrial dominance which could have come about without any conscious effort to suppress or restrain trade.

Mr. RIEVE. That is right. When I used the term "monopoly" it does not necessarily mean that there is a conspiracy in restraint of trade; it doesn't necessarily follow.

And another interesting question that developed in the questioning of Mr. McCormick—and let me say this for the record that I have the highest regard for Mr. McCormick—was the question of whether he reduced prices because of technological changes.

Well, the question was not quite clearly answered. If they were not technological changes that enabled the company to reduce prices, what is the obvious? The obvious is that the prices must have been too high.

Senator O'MAHONEY. Well, of course, he did say that increased production and expansion of plant facilities contributed.

Mr. RIEVE. Increased volume can bring about lower prices, that is correct; there is no question about that.

Senator O'MAHONEY. Well, then, if it is agreeable to you, Mr. Rieve, will you be good enough to prepare the statement that Senator Watkins requested and file it with the committee?

Mr. RIEVE. We will do so gladly.

Senator O'MAHONEY. The next meeting of the committee will be on the 2d of July in room 357 of this building and the witnesses who have been called for that day are Mr. Millard D. Brown, president of the Pennsylvania Manufacturers' Association and president of the Continental Mills, Inc.; Dr. John Henry Williams, economist, vice president of the Federal Reserve Bank of New York; and Mr. Leverett S. Lyon, economist, chief executive officer of the Chicago Association of Commerce and Industry.

The committee now stands in recess until July 2.

(Whereupon, at 12:55 p. m., the committee adjourned until 10 a. m., Wednesday, July 2, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

WEDNESDAY, JULY 2, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, O'Mahoney, Myers, and Sparkman; Representatives Rich, Patman, and Huber.

Also present: Staff Members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order. Our first witness this morning is Dr. Leverett S. Lyon, chief executive officer of the Chicago Association of Commerce and Industry. You may proceed, Doctor.

STATEMENT OF DR. LEVERETT S. LYON, CHIEF EXECUTIVE OFFICER, THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY

Dr. LYON. Mr. Chairman and members of the Committee on the Economic Report, I am very glad to have the opportunity of appearing here to make some contribution to the complicated problems with which you are dealing. I have set down some things that I hope may be helpful. I shall be glad to elaborate on them or touch upon others if you want me to do so.

As you have indicated, my name is Leverett S. Lyon, and I am chief executive officer of the Chicago Association of Commerce and Industry. This is an association of some 5,000 or more business organizations, including almost every type of industrial, engineering, and transportation business in the Chicago area, as well as a great many organizations such as legal, accounting, and engineering firms. Our organization is not a trade association, in that we have no interest in legislation that affects any particular group as such. This organization has three objectives: These are the civic and economic improvement of Chicago and the Chicago area as a place in which to live and carry on business, the promotion of that area, and the performance of certain specific services for its members.

While the president of our association has indicated a desire and a willingness to have me appear before your committee, my statements do not reflect any official position of the association.

I was for a considerable number of years a member of the faculty of the University of Chicago in the department of economics and the school of business. I was later head of the department of economics and dean of the school of business of Washington University in St. Louis, and then, for an extended period of time, executive vice president of the Brookings Institution of Washington. In all these capacities I have had responsibility for studying the economic activity of our country; in the latter particularly, to carry on research concerned with that subject. Some of the members of the committee may be familiar with my study of the National Recovery Administration and the two-volume work on Government and economic life.

THE PRESENT POSITION OF THE LEVEL OF ECONOMIC ACTIVITY IN GENERAL

If I understand the purpose of these hearings correctly, it is to collect views on the present condition of our national economy and to consider methods—particularly governmental actions—which will be conducive to the maintenance of full employment and the avoidance of recessions.

It is unnecessary to point out to any member of this committee that the economic activity of our country is at this moment at an unusually high level. Each member of this committee knows that in the first quarter of this year our national income was running at the rate of 180 billions;[1] that the gross national product for the first quarter was at the rate of $209,000,000,000;[2] that the Federal Reserve Board index of industrial production is at the peacetime high record of approximately 190[3] and that—perhaps most important of all—there are 58⅓ million people participating in American production, and through their compensation sharing directly in the national product. Of these more than 56,000,000 are in civilian production.[4]

In view of the prediction of recessions during the latter part of the war, and the more ominous auguries of depression which followed the close of hostilities, it is worth while at least to mention some of the reasons for our present unprecedented activity. No cause is more frequently mentioned than the accumulated demand for goods which were unobtainable and which most Americans have been accustomed to assume as a normal part of their standard of living. So far as this is a force, it will remain one until this accumulated demand has been met. A second cause of current activity is undoubtedly the increase in the amount of money in circulation. This was 28.2 billions of dollars in March 1947, as against an average of 4.7 in 1929 and an average of 7 billions in 1939.[5]

A third reason is found in the figures earlier given—those relating to employment and national income. With nearly 60,000,000 persons (not greatly less than half the population of the country) on pay rolls, it is obvious that there is a tremendous demand for goods generated by current income alone. With a working force earning, in wages, salaries, and enterpreneurial income, at the annual rate of 148 billions before personal and social-security taxes, there is a stream of income which alone generates an enormous demand for production.

[1] Survey of Current Business, May 1947, p. 3.
[2] The same.
[3] The same, S–2.
[4] Press reports of Department of Labor release, July 3, 1947.
[5] Statistical Abstract of the United States, 1946, p. 386, and Survey of Current Business, May 1947, p. 17.

This contrasts with some 57 billions for the same elements in 1937 and with some 66 billions in the boom year of 1929.[6]

Not only has the stream of consumer income greatly advanced during the past few years, but millions of families have moved into substantially higher income brackets. In the period 1941 to 1946, inclusive, more than 2,000,000 consumer spending units—for our purposes this may be construed as families—moved from lower brackets into the bracket of a $5,000 or more annual income. More than 8,000,000 families moved from lower incomes into the category of $3,000 to $5,000 annual incomes. More than 10,000,000 families moved from lower brackets into the category of $2,000 to $3,000 annual incomes. There was an actual decline of almost 4,000,000 families in the income bracket of less than $2,000 per year. This occurred while there was an increase of more than 6,000,000 in the total number of families.[7]

It should be particularly noted that these observations refer to current incomes and the demand which they generate. I shall make no reference to the accumulations of savings in the form of bank deposits, cashable Government bonds, and other sources of which consumers may currently draw. United States savings bonds series E, F, and G total some 51 billions. Time deposits equal 51 billions.[8]

A fourth reason which I believe should be mentioned is the apparent view of many industrialists that the outlook for business is good and that this is true for a considerable period ahead. This is contrary to the forebodings which we have had from many economists and particularly governmental economists. As evidence on this point, may I present to the committee the business outlook as expressed by the heads of a variety of businesses in Chicago.

THE BUSINESS OUTLOOK AS EXPRESSED BY THE HEADS OF A VARIETY OF BUSINESSES IN CHICAGO

I would like to file with this statement a copy of the proceedings of a 2-day conference on distribution held under the auspices of the Chicago Association of Commerce and Industry in February of this year and supplement it with certain statements made within the past few days by those who, in that conference, presented their views on the business outlook.

A glance at these proceedings will show that this is not an ordinary type of forecast. The views expressed are those of the presidents, chairmen, or other top officers of seven large companies. Each of these companies is a signficant representative of an important national industry. Even more important, perhaps, is the fact that these companies together pretty well cover the gamut of industrial and commercial activity from the most perishable consumer goods through the most basic forms of heavy manufacture. The statements on the market outlook were made, respectively, by Gen. Robert E. Wood, chairman of the board of Sears, Roebuck & Co.; Oscar G. Mayer, president of Oscar Mayer & Co., meat packers; Bertram J. Cahn, presi-

[6] Survey of Current Business, May 1947, p. 3, and Statistical Abstract of the United States, p. 270.

[7] How to Profit from the Coming Buyers' Market, by Arno M. Johnson, director of media and research, J. Walter Thompson Co. (Monarch Printing & Publishing Corp. Lecture Reporting Service), chart 5.

[8] *Federal Reserve Bulletin.*

dent, B. Kuppenheimer & Co., men's clothing manufacturers; Courtney Johnson, assistant to the chairman of the board of the Studebaker Corp.; A. W. Peake, president of the Standard Oil Co. of Indiana; Gen. Thomas S. Hammond, chairman of the board of the Whiting Corp., manufacturers of cranes and factory and foundry equipment; and Edward L. Ryerson, chairman of the board of Inland Steel Co.

A summary of General Wood's views on the market outlook may be made in these quotations from his statement:

> The so-called buyers' strike in consumer goods has thus far been confined to luxury goods and women's wearing apparel. * * * Sales in other lines are still at a high level, and thus far show no signs of abatement. * * * Some manufacturers and retailers may not make as large profits as in 1946, but their results will compare favorably with their best prewar years. While their margins will narrow, they can make up some of it by gains in operating efficiency and by better merchandising.

Within the past few days I have asked General Wood how far he would change these statements if he were making the presentation currently. His answer was that his statements would be the same.

Speaking of the outlook in the meat-packing industry, Oscar G. Mayer, president of Oscar Mayer & Co. said:

> The largest per capita consumption of meat since 1911 is in prospect for 1947.

What this means to the packing industry, which will process the livestock necessary to this meat consumption, is obvious. Its business significance is also clear when we realize that over one-quarter of the total cash farm income of American agriculture—the largest single fraction—comes from the sale of livestock to the meat industry. Mr. Mayer stated that—

> Last year, meat animal revenue to farmers was about $7,000,000,000—

and that—

> in 1947, due to somewhat higher prices, with increased supply, it may reach $9,000,000,000.

Again, within the past few days, these statements on the outlook in the meat industry, with their implications for agricultural prosperity, have been reasserted by Mr. Mayer. He says that while prices for meat products have sharply risen and although there are unusual variations in the relative prices for different types of meat products—especially in the low prices for lard relative to live hogs—the prospect for business activity has not deteriorated. He comments:

> There appears to be an insatiable demand for meat even at these prices—

and that—

> the outlook for livestock production makes it clear that packers will be very busy with processing.

Bertram J. Cahn, president of B. Kuppenheimer & Co., speaking for the business outlook in the men's clothing industry, summarized the conditions which he said have—

> created an insatiable demand for merchandise of an established worth and value, which has continued in force to date in the medium and quality price fields.
>
> Retail inventories of men's clothing are limited. It will be a very gradual process through 1947 to build and restore stocks. * * * The normal demand for men's suits is said to be 28,000,000 units a year. The quantity processed in 1946 is estimated at 22,000,000, or five or six million units less. This situation has created a demand for thirty to thirty-five million suit units against a normal annual production of 28,000,000 units. It follows that it will be fully a year before supplies can catch up with demand.

Commenting on this statement within the past few days, Mr. Cahn said:

> If I were making the statement today, it would be the same. There is no relief from the pressure of demand or the difficulties of providing the supply, particularly from the point of view of obtaining the workers necessary to manufacture the goods which could be readily sold.

Speaking for the automobile industry, Mr. Courtney Johnson, assistant to the chairman of the Studebaker Corp., said, after analyzing the effects of war on car production:

> Consequently, we have clearly for this year a demand for cars of 5,000,000 or over, just to replace the war-induced gap in our transportation.
>
> The industry cannot, in my opinion, build 5,000,000 automobiles in 1947.

Pointing out that this could not be done because of the unavailability of materials, essentially flat cold steel, Mr. Johnson continued:

> These simple facts indicate that there is more demand for new automobiles than automobile production will supply.

When I asked Mr. Johnson a few days ago if he felt that his prophecy of activity in the automobile business was still accurate, he said:

> This statement would still stand. As everybody knows, we are unable to supply the demand for cars.

The president of the Standard Oil Co. of Indiana, Mr. A. W. Peake, said at our conference:

> The oil industry had an unusually good year in 1946 and it is my expectation that 1947 will show further improvement.

As of this week, Mr. Peake has made the statement:

> There would be no basic change in my statement of the outlook for business as I gave it in February. There have, however, been some changes in the figures. These modifications should be made:
>
> A. There will probably be an 8-percent rather than 4-percent improvement in sales and therefore the demand for petroleum products in 1947 will be 31 percent (rather than 25.7 percent) higher than in 1941.
>
> B. The industry is not now sure that it can meet the total national demand (as it was when I spoke in February). It believes it can meet the essential needs of the country. It is exerting every effort to meet the entire demand. There will be local shortages—as discussed in the papers.
>
> C. The current building program of the industry will probably take care of the needed increase in annual capacity.
>
> D. Some 14,000,000 barrels of oil products that would otherwise have been produced were not produced because of strike—a factor which changes the supply situation from what was expected last February.

The Whiting Corp., of which Gen. Thomas S. Hammond is chairman of the board, as a manufacturer of large cranes, metal-working machinery, and factory and foundry equipment, represents the heavy capital goods industry. General Hammond's statement concerning the business outlook began with these words:

> Today our backlog of unfilled orders is the highest in our history * * * Our backlog alone, with no other business coming in, would still represent a very good year's work * * * New business is still coming in, even at the very extended deliveries which we have to quote these days.

Again, a conversation with General Hammond during the past day or two resulted in his saying:

> I would make no change in the statement made last February. The market is still strong. Our biggest difficulty is in getting materials and supplies.

The analysis presented in February did not include a statement concerning the building industry.

Realizing the current importance of this industry in the economic scene I asked, just before leaving Chicago, Mr. Gerhardt F. Meyne, one of Chicago's outstanding construction contractors, for his views upon a number of matters in this industry. In answer to the question: "What is the current situation in the building industry in Chicago?" his reply was: "It is slightly on the decrease." Answering this question as applied to various types of construction the replies were:

> Industrial work is slightly on the decrease. Cheap home construction is on the decrease. Good home construction is on the increase. No new office buildings or hotels are contemplated, but loft buildings are being turned into office space. There is much planning for increase in hospital construction. At the moment apartment buildings are being constructed only where affected by public housing, publicly financed. Remodeling is on the increase, particularly department-store renovation and demand for changes in fixtures.

Now, there are a series of answers here to construction costs. I don't want to bore you with going through all of those. You will see that his ideas on construction costs vary somewhat from item to item. Wage costs have been on the increase and have reached, as of this time, he felt, a peak about June 1.

There are some declines in lumber costs. Cement costs have gone up and he thinks will rise still further if coal prices go up and transportation charges advance, because those are quite contingent—or rather, they are large contributing causes to cement costs. He says you can get it but it is not easy.

Steel costs, he thinks, if we do not have another coal strike, will probably see a slight decline, although sheet, of course, is an automobile requirement, and he thinks will remain in short supply for a long time.

Fixture costs. Fittings and valves are in short supply, especially in larger sizes. Cost depends upon the persuasiveness of the buyer, his past relations, and very likely, some bonus payment.

On paint costs he says:

> Paints, I believe, will become cheaper and of a better grade as regulations on imports of linseed and other essential oils disappear.
>
> Glass is declining, but the cost of installation is tremendously increased because of restrictive labor regulations. I see no change in the cost of brick, rough concrete materials, reinforcing steel, nails, flue lining, sewer tile, ceramic tile, gypsum, dry-well board, and general plumbing goods such as tubs, toilets, and lavatories.
>
> Costs of materials in the building industry are all affected by railroad rates. Increases or decreases in these rates will influence the cost of everything that goes into construction.

He is very much concerned about that, and I emphasize it because it is a problem that some other governmental agency will have before it shortly.

On labor market conditions in the Chicago area these are the comments:

> There is a great shortage of construction labor. Common labor in the large cities is in fair supply, but skilled labor is short in every craft, particularly in the larger cities. This is less true in the smaller towns, where the rigid restrictions of labor-union acceptance regulation and large initiation fees are less influential.
>
> In general, in the Chicago area, including Cook County, we had in 1937 approximately 127,000 members of the building trades council. The membership

today is approximately 85,000. The average age in Chicago's skilled mechanics is 55 years.

Cement finishers are scarce because of trade regulations. Skilled carpenters are hard to obtain. Bricklayers are in short supply all over the country. Lathers and plasterers are very scarce in Chicago in particular. We could use 100 percent more than are now available. Plumbers, stonefitters and electricians, glaziers and painters are in fair supply. The reason for the shortage of labor in the building industries is because of the uneconomical apprenticeship system.

It is his view that that is one of the most serious deterrents we are concerned with, the length of time which is required for training work in that industry.

On legislative restrictions he says:

Most large cities need revision of the zoning laws and their building codes. The use of power in a plant without the production of steam has resulted in creation of industrial buildings which are not inappropriate in many residential neighborhoods. Thus located, plants have many advantages for employees, particularly the advantage of proximity. To establish plants in such locations requires changes in the zoning laws. Revisions needed in building codes are such as will place them on a performance or minimum requirement basis rather than on the basis of specific materials, which is now typically the case.

I should like to interrupt here to put in the record a copy of Building Regulation in Chicago. This publication of the Chicago Association of Commerce and Industry, represents a year and a half of expert study of changes needed to modernize the Chicago Building Code. It recommends a shift from requirements based on materials to those based on standards of performance. It outlines a procedure for code revision which is now being followed in Chicago and which, in my opinion, might well be followed in other large cities in which modernization is desirable.

I. Some General Effects on Construction Plans of the Foregoing Factors

The over-all effect of cost changes, even though prices are coming down in certain materials, is not resulting in stimulating construction; it is not producing the housing that is desired. Architects have many sketches in progress and are making some plans, but construction is no longer being let on a fixed-fee basis. Lump-sum firm bids are being requested.

Industrial construction is being held up because of high prices and the inability to guarantee possession within a reasonable time. Remodeling and reconditioning are going on actively. It is reported that farm buildings are being expanded.

Now I am shifting more or less completely from the general theme which I have been following. What I have tried to do thus far, is to point out that we are operating at an extremely high level nationally and to indicate that, so far as a range of business expression in Chicago is concerned, those reporting see nothing in the immediate or foreseeable future except a continuation of that type of activity.

But having given that information, I want to make a few comments that may be helpful in connection with some matters of national policy. One can consider national policy either in terms of maintaining the present level of economic life or of aiding if we get into a recession. I know you will have most expert testimony from many other witnesses on many phases of policy so I shall comment on only three points—inflation; exports; and what to avoid in a recession.

It certainly appears to me that one of the committee's objectives is to maintain something of the high degree of business activity and full employment that now exists, and to deal as quickly and skillfully as possible with any real recession that may appear.

In the first area—that is, in the maintenance of our high level of production, we need, in my opinion, to be giving thought to the problems of inflation rather than those of a recession, because we are still in it. Not only are the monetary phenomena of inflation obvious, but living costs, particularly in food, are reaching a point where it is of universal concern, and where these costs lay the basis for repeated demands for increased wages, and give a basis, an arguable basis, for such increases. The latter, in turn, give rise to higher prices, and so the cycle goes painfully on.

In this inflationary situation American exports are playing a very important part. Concerning exports, may I make these observations? I doubt if any single economic phenomenon is surrounded by more fallacious thinking than are exports. From the mercantilists we have inherited the idea that exports are good in themselves, and we still retain, in describing the excess over imports, the deceiving phrase "favorable balance of trade."

I believe sound thinking about exports, in terms of national policy, begins in recognizing that they are something which in and of themselves are always undesirable. They should be regarded as a payment. Our thoughts on this subject would be clarified if we always thought first in terms of imports—that is, what are the things, if anything, in other countries which we would like to buy—and then, "are these things worth paying for in terms of what they would cost us?"

Current thinking on exports is, I believe, further confused by a widespread view that extensive exports are needed as a means of maintaining the American economy. I realize, of course, that there are important industries, among which the production of cotton is outstanding, that depend on exports. But I have no doubt that if any reasonable production can be developed in Europe, South America, and the Orient that we will want so many things from these countries that we will need large exports to pay for them. But this is very different from saying that we should maintain large export shipments, without regard to what we get for them, and merely for the purpose of keeping busy the persons who produce the products. To suggest the latter is to suggest that the persons so producing be put on a sort of WPA, making goods to send abroad instead of raking leaves at home.

The problem of exports is at present of course greatly complicated by the fact that they have become an important political tool. We must distinguish between using exports to buy imports and using them to buy foreign loyalty, or establish European governments, or to set up the industrial mechanisms of Europe or Asia. I doubt if one person in a thousand in the United States is aware of what we are doing with exports in this latter field of activity. The facts of life in this matter are concealed under such gilded terms as "Fighting Communism with Dollars"; or, in referring to the difficulties of foreign countries, as a "shortage of American exchange." The realities of this political mechanism would be far more clear to the American people if it were pointed out that we are really fighting communism with the food from American tables, the clothes which might otherwise be on American backs, the building materials which might otherwise be used for American housing, and that what a foreign loan really means is a promise to tax us, directly or indirectly, for the money with which to buy such things away from us in our own domestic market.

I do not want to be misunderstood. I am not attempting to pass on the wisdom of our foreign policy. I am not attempting to state that we should be sending more or less of the American output to Europe or Asia. Judgment on that question calls for an immense amount of specific economic information and a knowledge of political factors which we can only hope is possessed by those who formulate our national policies. The point I am trying to make is that few of the public are aware of the meaning of what is going on in terms of its effect on our own national economy and on their individual budgets. Americans will have a far sounder basis for judging the use of food and other exports as tools in foreign policy to the extent that they are made conscious of the real meaning of such exports as they affect their own living standards.

Observation of these facts and the increasing difficulties in the international scene make it clear, I believe, that we are approaching, if we have not already reached, in economic terms, an emergency economy, if not a wartime economy. The path we have been following is the road to rationing and Congress may soon find it necessary to give consideration to that procedure for certain products, with food products probably the first involved. Informal rationing of gasoline to dealers, though not to consumers, has already been announced by certain large petroleum refiners; and automobile manufacturers, I am told, are making use of quotas—that is, rationing—in distributing their output to the Nation.

Again let me say I do not want to be misunderstood. I do not like rationing; I am not recommending rationing, certainly as of this time. What I am saying is that the cost of the most basic factors in living budgets are becoming an increasingly serious matter and that if the economic warfare to which we appear to be committed goes far enough, Congress will be called upon to recognize, as it did during the war, that allocation through price, in which I am a strong believer, will be charged with not meeting national needs. It will be said that such allocation furnishes a justifiable basis for ever-growing demands for wage increases—increases which do not offer any actual remedy since the higher wages will not increase the supply of food. It will be further charged that distribution through price detracts attention from the real cause of high prices namely, shortage, and gives rise to the view that high prices result from some inept or malicious action of distributors, producers, or government.

MAJOR RISKS IN RECESSION

It would be too much to hope that the present high plane of business activity will be maintained forever. Sooner or later the symptoms of recession will appear. From that moment every public official, this committee most of all, will be besieged with proposals designed to prevent further depression and to cure whatever degree of recession may have taken place already. A large proportion of these will be fallacious and this committee will have no more important responsibility than to prevent the enactment of these illusions into law.

The most general of these is the fallacy that depressions are due to overproduction, and hence are to be remedied by curtailments of physical output. Such restrictions defeat the purpose of recovery, if what is desired is the maintenance or expansion of employment. All that they can do is to maintain prices—that is, possibly protecting past investment, but at the cost of higher prices and continuation of unemployment.

A whole series of related fallacies will appear in the guise of fair-trade practice. One of the most insidious will take the form of "no sales below cost." An effort to make such a provision legislatively effective not only involves a complexity of cost analyses which is beyond even a Government accountant, but prevents many manufacturers from producing and from employing—which are desirable—on a cost basis which under the conditions they regard as better than the basis which the regulations impose.

Without elaborating further on these proposals, it will be found that a very large portion of them will be merely ways of preventing active competition from bringing about readjustments. They will be founded on the theory of the maintenance of the status quo in financial terms, whether wages or prices or profit margins, is the significant objective of recovery, whereas in reality recovery is real only in terms of employment and production.

I thank you, gentlemen, for your patience.

The CHAIRMAN. We thank you, Mr. Lyon, for your presentation.

You referred to some statistics, Mr. Lyon. Do you think our statistics on national income and employment and so forth are completely reliable?

Mr. LYON. Well, I use them. I rely on them, but I don't know the answer to your question, which is obviously one for a highly technical statistician working continuously with the sources and continuously analyzing the methods by which they are obtained and processed.

The CHAIRMAN. I do not have the figures, but I always have an uncertain feeling as to whether they are really correct.

Mr. LYON. I do too, especially if I have some opposition.

The CHAIRMAN. Where did you get these figures on family income?

Mr. LYON. Those figures, as you will see in the footnote on page 4 of the prepared statement, are taken from a statement made by Arno M. Johnson, of J. Walter Thompson Co. He presented them at a meeting of our association early this Spring.

Senator O'MAHONEY. Did you bring any copies with you?

Mr. LYON. No, but I will be happy to mail a copy promptly to each member of the committee.

Senator O'MAHONEY. I was particularly interested in the title of the article by Mr. Johnson, "How to profit from the coming buyers' market." That would indicate that he believes we are coming to a "buyers' market." How close are we, in your opinion?

Mr. LYON. Well, I think I know what you mean by a buyers' market. I think perhaps Johnson means two things. One, that we are going into an era where it will be necessary to sell, when it will be necessary to push sales, which is what we typically mean by a "buyers' market," and, second, that there have been some shifts in income which will make buying somewhat different than before.

Now, I am not sure that I have answered your questions, because I think you wound up by asking me how close I think we are to it.

Senator O'MAHONEY. You started your answer by saying you think you know what I mean by "buyers' market." Then I think you failed to carry out what you mean by "buyers' market."

Mr. LYON. Yes, and it is a fatal error to tell a man you think you know what he means.

Senator O'MAHONEY. What do you mean by "buyer's market"?

Mr. LYON. What I mean by it is a market in which the buyer has some degree of choice and the possibility of resistance, in contrast to the kind of market we have had, in which everything has favored the man who had something to sell.

Senator O'MAHONEY. What did Mr. Johnson mean by "buyers' market"?

Mr. LYON. As I have said, I think Mr. Johnson had in mind a sort of duality of meaning, that when we get to a situation where the buyer will have some choice, we will also have a buyers' market in which there will be the distribution of income which his figures indicate. I don't know that the latter part of this statement is significant. Maybe he means exactly what you and I now agree he ought to mean.

Senator O'MAHONEY. No; I am not attempting to say what he ought to mean. I am just agreeing on the definition that you and I have. I didn't mean to interrupt you.

Mr. LYON. I am glad you asked the question. I think Johnson starts with the conventional meaning, but he also means that the buyers' market is going to have the qualitative or financial aspects which he has pointed out.

The CHAIRMAN. Mr. Lyon, there are two or three places where you referred to the shortage of labor in the making of men's clothing, that they cannot get enough workmen in the industry; also that in housing they cannot get enough workmen, and I think there is nother place where there is a shortage of workmen.

Mr. LYON. Mr. Bertram J. Cahn of B. Kuppenheimer & Co. emphasizes this in clothing.

The CHAIRMAN. How do you suppose they will ever catch up if they don't get enough workers to catch up with the work? How will we do it? Will we increase the number of hours of work, or have we gotten into a cycle where our production cannot meet our demand?

Mr. LYON. Well, I don't think I can give a satisfactory answer to that, certainly one satisfactory to myself. We have, as these figures indicate, some fifty-eight-odd-million people working. That means that the total output under current conditions is very large. If each worker is producing as much as it is practicable for him to produce then we are caught up about as nearly as we can catch up.

It would help to extend hours of work, but only on the assumption that the extension of hours would add to productivity. It probably would do so in some industries.

There are a lot of ways in which we could more nearly catch up in the building industry. In Chicago, for example, if I am correctly informed, it is not considered proper to mix cement in a cement mixer while it is en route to the job. That has to be done on the job. Glass has to be put into the window frames on the job. One way we could catch up is by improving such technologies. Of course, in the fundamental sense we never catch up, because we never get all that we want.

The CHAIRMAN. Do you have any additional apprentice training in the building trades, or is that still restricted below the needs of the trade?

Mr. LYON. I can't answer the first part of your question, or just what the trade does and how it applies.

The CHAIRMAN. Of course, a man can take apprenticeship training at Government expense if he can get the training.

Mr. LYON. Well, I am sure it is not very effectively operative there. I know it just hasn't been implemented to work out effectively in Chicago.

Senator O'MAHONEY. I notice you said that the average age of skilled building mechanics in Chicago is about 55 years. During the hearings on the Centralia coal mine disaster before the subcommittee that went out there, we discovered that the average age of the miners in that pit was about the same. Then later on, when we asked John L. Lewis for the over-all age of labor in the industry, we found that it was about 51 for the entire coal-mining industry. Therefore I am prompted to ask you what is the basis of your figures as to the age of the building-trades mechanics in Chicago?

Mr. LYON. The basis of my figures that I have just given is the quotation from this long experienced contractor who worked in the closest relationship with these people over many, many years. His statement is the only basis I have.

Senator O'MAHONEY. Do you have any basis on which to estimate the age of building workers for the whole country?

Mr. LYON. No; I have not.

Senator O'MAHONEY. With respect to coal mining, the obvious answer for the rising average age, to my mind, is that the young men are not being attracted to the mines. Is there a possibility that young men do not want to take up the building trades?

Mr. LYON. I think there is, and also in some other industries. I think it is true in the building industry, and again relying on the information that I get from people who are working in it, one of the reasons is the long apprenticeships that are still in vogue, so that it takes a long time to become a master craftsman with all the rights and privileges that appertain thereto.

Senator O'MAHONEY. That is, of course, clinging to tradition.

Mr. LYON. That is right, clinging to tradition, a sort of guild system that still persists. That is one reason.

A second reason is that with the development of the kind of society we have, there are an increasing number of other work opportunities that are either less rigorous or do not require as much outdoor exposure, or that have better continuity.

If I may shift—because I think it is pertinent to your question—to this same problem in the clothing industry, you may have noticed my comment on what Mr. Cahn said. His company's labor problem is serious. Over a long period of time that industry used a lot of immigrant labor, mostly European, but it is said, "nobody wants to run sewing machines any more."

Senator O'MAHONEY. You spoke about technology with respect to the building industry. Have you made any examination of the building codes of the city?

Mr. LYON. Yes. I have here a copy of the study of the Chicago building code and related regulations which was made by the Chicago Association of Commerce and Industry. It is called Building

Regulation in Chicago.[1] I do not know that this committee has any power to do so, but I believe it would be a great contribution to bring about a similar study in every city of the United States.

Senator O'MAHONEY. Let me take advantage of your reference to that subject to say that the Postwar Economic Policy and Planning Committee published a monograph on this subject.

Mr. LYON. I wouldn't wonder if you came to some of the same conclusions.

Senator O'MAHONEY. What is the conclusion here?

Mr. LYON. The major conclusion was that the code should be rewritten in terms which provide flexibility. This calls for the abandonment of requirements of specific materials for specific purposes in building, and the substitution of requirements for functional performance. Now, I think that lingo is clear, but I can put it in simpler language. It means that if a wall is to be built, it shall meet the qualifications necessary to proper fire resistance, proper carrying capacity for loads, and so on, and that meeting these qualifications, it is not significant whether it be built of brick or cement or tile or any other material. We have a requirement in Chicago, as I understand it, that we must have a certain amount of plaster put on walls in certain types of buildings. Under the conditions of a code of functional performance, any material might be used which meets the performance requirements established in a code.

Senator O'MAHONEY. Did you come to the conclusion that by permitting modern methods of construction through local building codes, the governing bodies of the cities of the United States could stimulate construction and bring into existence many more houses than are being built by the old-fashioned method now employed?

Mr. LYON. Well, we came to that conclusion before we started. We don't want to minimize the merits of our own research, but this study had its origin long before I knew I was to have the honor of testifying before this committee. We began this study in 1943 as a part of our planning for postwar activities. After a lot of preliminary discussions with architects and other informed people we came to the conclusion that one of the things we ought to do was to free the building situation as much as possible. Now, the study emphasized the method by which that freeing might be brought about.

Senator O'MAHONEY. I hope you have provided enough of these so you can leave that memo with us.

Mr. LYON. I will leave you one before I go, as the chairman suggested, and send one to each member of the committee.

Senator O'MAHONEY. Let me refer to another portion of your statement. On page 3 of your statement filed with the committee you call attention to the big increase in consumer buying power that has taken place in this country, and you have pointed out that more than 8,000,000 families moved from lower incomes into the category of $3,000 and $5,000 annual income; that 10,000,000 families moved from the lower brackets into the category of $2,000 to $3,000, and that there was an actual decline of almost 4,000,000 families in the income brackets of less than $2,000. Now, as an economist, is that good or bad?

Mr. LYON. That is easily answered as an economist, easier than most questions that are asked of economists. If that could be trans-

[1] Building Regulations in Chicago, the Chicago Association of Commerce, Chicago, Ill., November 1945.

lated literally into meaning that they had that much more actual goods income, that would be a reason for great enthusiasm. What it has meant in terms of income——

Senator O'MAHONEY (interposing). No, just a moment—in other words, I interpret your answer to mean that, in your opinion, any actual increase in the real income of the people of the United States would be of great benefit to us all?

Mr. LYON. My view is that such is the purpose of an economic system; it is to provide people with goods and services which they think it is worth while to have.

Senator O'MAHONEY. So the real purchasing power is what their income will buy in goods and services that they want?

Mr. LYON. That certainly is most important.

Senator O'MAHONEY. No; I interrupted you. You were going to make another statement.

Mr. LYON. My comment is that to answer your question whether it is good or bad, involves measuring the difference between the monetary income which this change indicates, and the real income—and that is a question which involves the changes in the cost of all the different things that are being bought. How far that has actually taken place I cannot answer.

Senator O'MAHONEY. Often those who ask for increased wages, even Government and congressional employees as well as Members of Congress, are motivated by the thought that the cost of living is running ahead of income, and that the income ought to be increased, but what I want to direct your attention to and get your comments upon is the current critical attitude directed toward the movement in labor for increased wages. Do you have any comments on that?

Mr. LYON. Yes; I have this comment that I think is pertinent to your question: You have made the point that I want to make—in fact, you and Senator Taft have each indicated it—moving up financial incomes, whether it is done with wages for people that work for associations of commerce or for Senators or for Government clerks or whoever, does not in itself add anything to the actual national output of productive goods. What it does do in any particular case is put the individual concerned in a better position to bid against those who have already been put in that good position, either through circumstances of the market or through salary increases. But it does not in itself increase the output. It does not in itself add anything to our common objective of a better living for all.

Senator O'MAHONEY. In other words, you are saying that increased income and increased prices when not accompanied by an increase in productivity is inflationary and is bad for the whole country.

Mr. LYON. It is inflationary, and to the extent that the people think it is giving everybody more, it is illusory.

Senator O'MAHONEY. That brings me to the central question, I think, of these hearings—What is the effect of this situation on prices and what should we do about prices. You quoted from a number of very eminent industrialists who told you that the future looked very rosy. I am inclined to agree with them. Mr. Baruch a long time ago predicted that we were in for 7 years of very good business, until the accumulated demand should catch up with supply. I think these men are saying the same thing in other words.

Mr. LYON. They are not looking that far ahead, but they are saying the same thing.

Senator O'MAHONEY. Some of the testimony here, notably the testimony of Mr. Johnson, is that we are moving into a buyers' market. That prompts the question whether, in your opinion and from your observation, production is catching up with demand?

Mr. LYON. Judging from the statements of all these industrialists, we are approaching it, but I cannot see that any of them admit we are really in it. These men are all talking in terms which describe a sellers' market. Take the comments that were made about building. You notice in two or three places Mr. Meyne speaks of bonuses that had to be paid. Bonuses are obviously one of the phenomena of a sellers' market in terms that you and I agree are right. The shortage of steel in relation to demand at current prices indicates a sellers' market. The same thing is tue in nearly every one of the industries that have here been cited.

Now, to come back to Mr. Arno Johnson, nearly every businessman that I know of, beginning toward the latter part of the war, talked about the coming buyers' market. Most of them had the feeling that when war conditions passed they would have to try to sell goods as they used to do. On the basis of this evidence in Chicago, the buyers' market just hasn't yet materialized.

Senator O'MAHONEY. Briefly summarizing some of those things you have testified to this morning:

1. The automobile industry cannot produce enough automobiles to meet the demand.

Mr. LYON. Right. A certain Chicago newspaper is campaigning now in Chicago—similar action is no doubt going on elsewhere—to get State officials to prevent dealers who are allegedly selling new automobiles to second-hand dealers, so these second-hand dealers can sell them at premarket prices, from doing so.

Senator O'MAHONEY. We have a lot of testimony along that line.

Mr. LYON. I am sure you do.

Senator O'MAHONEY. The second point was that demand for oil is exceeding our local supply. We are informed that the Standard Oil Co. wants to adopt rationing.

Mr. LYON. Yes, sir; the report is "informal rationing to dealers."

Senator O'MAHONEY. At any rate we have indications that two large branches of industry are undertaking a private rationing system—the automobile industry, where the manufacturers are establishing quotas for their machines—and the oil industry, where the Standard Oil of Indiana has publicly announced that it intends to establish quotas.

Mr. LYON. Are there quotas in the automobile industry?

Senator O'MAHONEY. As I understand it, the automobile manufacturers have fixed quotas limiting the number of new cars which the dealers can have. These are not quotas which represent a volume of sales which the manufacturers urge the dealers to attain, but rather quotas which serve as a ceiling on distribution.

Mr. LYON. Yes; that is my understanding also.

Senator O'MAHONEY. And at the same time the motor industry is endeavoring to keep down prices. The motor witnesses have testified here and Mr. Wilson, of General Motors, told us that the respective companies are seeking to enforce ceilings, so far as they can, and they are not succeeding very well, according to his report.

Now, in the two industries I have mentioned, it is evident that production of oil and automobiles is not keeping up with demand, and I turn to page 10 of your statement on construction costs and refer to the following statement: Wages, you say, are up; lumber costs in certain cases are down, but the quality of lumber is still short; cement costs are up; steel costs, you think, may be decreasing, but you do not say that they will.

Mr. LYON. There again, I say steel sheets, which I think are for the automobile industry—the last sentence in that statement says "sheets" will probably not go down in price.

Senator O'MAHONEY. But this was in connection with structural steel, and you say "It is my opinion that structural steel prices will decrease approximately 5 percent."

Mr. LYON. Yes, sir.

Senator O'MAHONEY. I will pass that for the moment.

The next item is "Fixture costs," which you say are up, with respect to which you believe they will become cheaper and better grade.

With respect to glass you say prices of glass are declining.

That presents a rather clouded picture with respect to prices; does it not?

Mr. LYON. Yes, sir.

Senator O'MAHONEY. What would you recommend to this committee with respect to governmental action, if any, for the purpose of stabilizing prices, inasmuch as it is clear that increases in prices are bound to result in increases in the cost of living, and in turn, bound to result in demands for increased compensation. Already a member of this committee, Senator Flanders, has introduced a bill to increase the compensation of all Cabinet officers and all members of Government commissions.

Senator FLANDERS. May I say that they have had no increase since 1923.

Senator O'MAHONEY. I have no doubt you are right about that, and may I say that perhaps the Senator is preparing for what he hopes may happen in 1948. I don't know. [Laughter.] I was merely illustrating the pressure for increased wages, whether it emanates from labor union leaders or from Government people or from Congress. The pressure for increased compensation to meet the cost of living is apparent wherever you turn; is it not?

Mr. LYON. That is right.

Senator O'MAHONEY. And have you any suggestions to us to go to the heart of this whole business, which is price?

Mr. LYON. Well, I have some. What I think the Senator is doing in introducing that bill is the thing that everybody has had to do in a free market. If, as he says, they haven't had an increase since 1913, and——

Senator FLANDERS (interposing). No; 1923. It is not quite as bad as that.

Mr. LYON. Well, 1923. At any rate, he is probably feeling that they ought at least to get their share of what national income there is to be divided. I have only these two or three suggestions. What you have in these areas where wages are fixed by governmental action, as you do in Government pay rolls, indicates, I think, the necessity of considering what everyone who operates a private business finds he has to do. He has to raise wages whether he wants to do so or not. In a little organization like our own, of around a hundred people, for example, the question whether or not we want to raise wages is not left in our hands; we have to raise wages if we want to have any employees. Now, I hope our employees rationalize our action, and say, "How thoughtful our employers are. They have raised our wages because the cost of living has gone up; they have recognized that fact and been very generous about it." I would like to rationalize it myself and think that is why we did it. But that would not be altogether honest. If we had not done it we would not have many employees.

Now, what I think the Senator is saying is that in this high-priced market with which we are all concerned, the Government should be enabled to bid against banks and industrialists and commercial organizations in the market for personnel. I can't help feeling that this idea influences the Senator as much as the belief that it is only fair that Cabinet members and commissioners have as good a chance as others to bid for the available supply of food, housing, and clothing.

I just want to add one thing more seriously. I have already intimated that I think that if we get into a more serious situation internationally then we may have to resort to rationing and price fixing. I think we are already engaged in economic warfare. That is the road to rationing, and we may well arrive there.

Senator TAFT. If you have rationing you have to have price control, and you might keep prices down by raising wages—regulate rationing by regulating wages.

Mr. LYON. Well, I don't think you can separate them, because rationing——

The CHAIRMAN. Why not?

Mr. LYON. Well, at any rate, I doubt if we can do anything useful with price control without some form of rationing. It might be possible to do the reverse.

On the wage matter, Senator O'Mahoney, may I make this final comment on your earlier question. I think we need to be careful of the sweeping readjustments that are made for whole industries and whole areas without particular reference to the situation in localities and particularly in companies. We were formerly accustomed to consider these as questions for individual concerns and their employees. I am not making an argument against collective bargaining in saying this, but I believe the national and industrial patterns which we are getting in mind for wage adsjustments have some dangerous implications.

The CHAIRMAN. Are there any other questions?

Mr. PATMAN. You were talking about a buyers' market and sellers' market. Aren't we doing a lot now to postpone the day when it will be a buyers' market? For instance, it is proposed now that we reduce interest rates on postal savings to 1 percent. If postal savings are about a billion three hundred million, and if the interest rate is reduced, naturally a lot of that money will be withdrawn and put on the market. Don't you think that is true?

Mr. LYON. Probably; yes.

Mr. PATMAN. And that will go into competition with the money of other people, as you suggested a while ago.

Mr. LYON. Yes, sir.

Mr. PATMAN. I hope that bill is not passed, but I understand it has a pretty good chance.

Regulation W is being repealed. We have more installment purchases today, I guess, than we ever had before in the history of the country. It is growing fast. It is about ten billion five hundred million.

Mr. LYON. I believe so.

Mr. PATMAN. More than in 1929. If Regulation W is repealed, that means that installment purchases will increase probably fifteen billions —maybe lots more—and that money will go into competition with the people who have existing funds and have annual wages and weekly wages to spend. That will postpone the day when we will have a buyers' market, too.

Mr. LYON. It would have that effect.

Mr. PATMAN. How, take the terminal-leave bonds of the veterans—which should be paid, ought to be paid; we cannot justify not paying them—that would amount to about $2,000,000,000. That will be along the level of people who will certainly spend that money very quickly, and that will postpone also the day of a buyers' market.

You mentioned the building regulations in Chicago. Before the Banking and Currency Committee in the House we had a witness from Chicago who gave us eight requirements necessary to build a home in Chicago. I think there were about 221 requirements. Of course, the answer was that the Federal Government was causing this employment and stating the requirements, but in truth and in fact, the city of Chicago has 10 requirements to every 1 of the Federal Government. So it looks like the city of Chicago is requiring more than even the OPA and all these other Federal agencies require.

Mr. LYON. Did those requirements refer to specifications in the building code?

Mr. PATMAN. Yes; they referred to the code and all other requirements—different things a person has to do in order to build a home in Chicago.

You mentioned cement. Do you mean to say that they do not permit them to mix cement on the way to the job?

Mr. LYON. I understand that is correct. I don't think that is in the code, however. I believe it is part of an agreement between the building trades and contractors. I don't believe it is a matter of law.

Mr. PATMAN. I thought that had been changed. I was told by people in Chicago that they did not permit it when Thurman Arnold brought suit in Chicago, but my understanding is that today that has been changed.

Mr. LYON. It is possible.

Mr. PATMAN. Senator Taft, you mentioned rationing and keeping down prices. Is there any proposal now to ration goods?

The CHAIRMAN. I don't know. I haven't heard of any.

Mr. PATMAN. You are not proposing any?

The CHAIRMAN. In fact, the Secretary of Agriculture just removed rationing on sugar.

Mr. PATMAN. You are not proposing any?

The CHAIRMAN. No. All these proposals are suggestions by the witness.

Mr. LYON. They haven't quite reached the point of proposals, but are something that I think we need to be considering. We are on the road that may lead to that rationing.

Senator MYERS. I think you are rather bullish at the present time with regard to the continued high level of employment and the continued high rate of national income.

Mr. LYON. That is right.

Senator MYERS. Do you think that under these prices, as high as they are, or if they rise further, we will be able to continue that high level of employment and that high national income?

Mr. LYON. I don't believe the rise of prices tends to bring about recession. I think the increase in prices tends to work the other way.

The CHAIRMAN. If prices go up too much do you think it will cease to be bullish?

Mr. LYON. I was going to say that, but I was afraid you would ask me what "too much" is. I couldn't give an answer to that question.

Senator MYERS. Is it your theory that prices are too high at the present time?

Mr. LYON. Well, when I was a professor I used to say that I never knew how one could tell in a free market when prices were too high. I am serious about that. To answer it it is necessary to consider the standards one would apply.

Mr. PATMAN. Mr. Fowler McCormick in his testimony before this committee on June 26 had this to say:

> Any price is too high if it can be reduced. That is still our belief and our continuing policy.

Mr. LYON. Yes; I know. I have talked with him about that. I think that if I were in Fowler McCormick's position—and he is one of the most admirable people that I know, and I know lots of admirable ones, because Chicago is full of them—that I would mean, not how far they actually could be reduced but how far it was proper to reduce them, considering competition, stockholders, workers, and customers. There must have been some point in Fowler McCormick's mind below which they could not be reduced, meaning could not wisely be reduced, when all factors were considered.

Mr. PATMAN. He says, in reply to a question by Senator O'Mahoney:

> In physical figures, in physical volume figures, there has not been any change at all, because we have sold exactly what we would have sold at the other prices.

In other words, do you believe that there is any attempt on the part of business and industry generally to reduce prices?

Mr. LYON. There is an effort on the part of many businesses, as you know from the testimony, I am sure, of Paul Hoffman and others, to keep prices down. I think industrialists are very conscious of the situation, and I think that is one of the reasons why they are holding the prices far below the free-market price. What they are doing furnishes a striking contrast to what is happening in the open markets as illustrated by agricultural prices.

Senator MYERS. Along that same line, I was rather interested in your comment on construction—that cheap home construction is on the decrease and good home construction is on the increase. By "cheap home construction" do you mean lower priced homes as against higher priced homes?

Mr. LYON. That is what I think my informant means.

The CHAIRMAN. You say "lower priced homes"? Are there any such?

Mr. LYON. There are some that are lower in cost than others. "Lower priced" is relative in all products.

Senator MYERS. From that I surmise, then, in saying there is a decrease in the construction of lower-priced homes and an increase in the construction of higher-priced homes, the fair inference would be that that will help our situation in regard to housing in Chicago and the country generally. Is that the trend of the country?

Mr. LYON. I doubt if present discernible trends will provide an ultimate answer. If there were time, I would like to describe a constructive activity in Chicago, in which a mayor's committee, consisting primarily if not entirely of businessmen, working with the State legislature, has just succeeded in getting legislation that will, I think, help greatly the housing situation in Chicago. It includes some public housing, some slum clearance, some provision for persons who are displaced by slum clearance, and a large opportunity for private capital and private enterprise.

Senator MYERS. You further stated that apartment buildings are being constructed only when affected by public health and public demand.

Mr. LYON: That is right.

Senator MYERS. That is a rather dark picture, isn't it, for the average wage earner?

Mr. LYON. I think so.

Senator MYERS. In view of that picture, what would be the effect of the removal of rent controls in the city of Chicago?

Mr. LYON. It would increase rents. That is the most serious effect. Landlords will regard that as good. Obviously, it will be regarded as bad and will make it more difficult for a lot of people who are renters.

Senator MYERS. From the facts you have given, it doesn't seem to me to be a bright picture for new housing in your community.

Mr. LYON. That is right.

Senator MYERS. And since today we know of the shortage of housing, and if rent control next February 28 is repealed, as it will now be under the law, unless a new act is written, then I think the average tenant may be in for some further increase in his cost of living.

Mr. LYON. I think that is very likely.

Senator MYERS. You think that is true?

Mr. LYON. I think so. I think the outlook for adequate housing, in the sense of what we would like to have people have, for people in that area—as I think it is true elsewhere—is certainly not very bright.

Senator MYERS. Do you think this committee might make some recommendations with regard to the housing picture as you have presented it to us? Do you think that is something that this committee could do?

Mr. LYON. I think this committee could very wisely look into that but I should obtain much more expert knowledge than I have on the subject. I am giving you primarily the view of a man who has a good view but not what I think is an expert or adequate view.

Senator MYERS. If prices remain as they are today, if they can be stabilized at the present level, nevertheless the average worker may look for an increase in his cost of living next year?

Mr. LYON. I think that is right.

Senator MYERS. That is all.

The CHAIRMAN. Are there any further questions?

Mr. RICH. In reference to this housing situation that the gentleman from Pennsylvania was asking about, as long as you have no opportunity for a man to invest privately in home construction for rental purposes, would the individual put his money into a home or into an apartment house for rent?

Mr. LYON. That is a question that is asked again and again. My own feeling about it—and it is one of which I am a good deal less sure than I am some things, and I am not very sure about anything in housing—is that we have a uniquely difficult situation in this industry, carried over from the war, because we cannot produce housing rapidly. The materials that go into housing are those which are needed in industry, not only to construct new plants but for every kind of industrial products—by that I mean steel, cement, and so on—so that the effort of the industry to catch up with the wartime lag seems to me most difficult. That is why I think we have been wise to retain much longer than we did other controls, the regulations concerning rents, and construction. Now, whether we are at the point where we should dispense with it or whether we would be wiser to keep it another year or for an *x* period is a question on which individuals would very greatly differ. I have felt that maybe it is a little early in terms of the construction that is taking place. On the other hand, we must give the building industry an incentive if it is to go ahead.

Mr. RICH. Eventually the chances are that we are going to catch up with building, but it will take some time before we reach that point.

Mr. LYON. I would hate to believe that we must rely permanently on the amount of housing we now have, or rely on additions through public housing alone.

Mr. RICH. Since we have employment of 58,000,000 people, what do you believe should be done so far as the Government is concerned, in new construction?

Mr. LYON. May I send you also another statement, a proposal that has been made by a committee appointed by our mayor. It embodies legislation which is now being passed by the Illinois State Legislature. It is a combination of public and private action. Some of the elements are these: A limited amount of public housing to be used, as I understand it, to take care of persons who will be displaced by slum clearance; the purchase of a lot of slum areas in Chicago with public money, the resale of that area to private interests for private building. The program is designed to reduce blight in the city, and to make it possible to accumulate enough property so that it can be dealt with by large management and construction projects. It is designed to take care of displaced persons and to draw investment funds from insurance companies or others for large private construction. It is a combination operation, in which State government, city government, and private enterprises are all involved.

Mr. RICH. As long as we have the present high wage rate and with the great amount of employment that we now have, do you advise the

Government expending money now for housing or other public construction, or do you believe that the Government should create employment only in cases of need?

Mr. LYON. If I understand your question, this is my answer: I think that so far as public expenditure for housing is concerned, there is a place for it if it is done carefully in connection with local operations, probably both State and city and private enterprise and where some real planning is done to effect a slum renovation process and a housing process at the same time.

Mr. RICH. I mean the Federal Government spending money for public construction at a time when industry generally is giving full employment to the people of this country. Shouldn't the Federal Government hold back on its public construction now?

Mr. LYON. You are broadening the term now, and perhaps I misunderstood what you had in mind. If you mean public works in general——

Mr. RICH (interposing). That is what I mean.

Mr. LYON. I would agree strongly with that. That is the time to defer public works so far as it is at all possible to do it. If that is your question, the answer is more simple than when housing is the problem.

The CHAIRMAN. You said something about some deterrent to building. May I ask what deterrent is there now—what is deterring people from building?

Mr. LYON. A deterring influence, I think, was rent control.

The CHAIRMAN. Control is removed now, so that is out.

Mr. LYON. Yes; that is out.

The CHAIRMAN. All construction controls have been removed.

Mr. LYON. That is approximately right.

The CHAIRMAN. There are no deterrents on private building now.

Mr. LYON. Practically no legal deterrents.

The CHAIRMAN. The whole situation arises from the excessive costs of housing in relation to the income of the people generally?

Mr. LYON. That is right. But there may be some actual shortages of materials and building supplies and even of the equipment to make them. When we were speaking of this a moment ago I thought we were talking about whether all rent control should have been removed, and I said that sooner or later we would have to remove that deterrent. I meant all rent control, the exact moment of removal being a question of judgment.

The CHAIRMAN. If that is all, thank you, Mr. Lyon.

Mr. LYON. I thank you, gentlemen, for this opportunity.

(Mr. Lyon submitted the following paper:)

STATEMENT SUBMITTED BY DR. LEVERETT S. LYON, CHIEF EXECUTIVE OFFICER, THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, JULY 2, 1947

I. IDENTIFICATION

My name is Leverett Lyon. I am the chief executive officer of the Chicago Association of Commerce and Industry. This association consists of something more than 5,000 business organizations located in Chicago and the Chicago area, including almost every type of industrial, mercantile, and transportation business, and legal, accounting, engineering, and other professional firms. It is an over-all business and professional group having three objectives, which are the civic and economic improvement of Chicago and the Chicago area as a place in which to live and carry on business, the commercial and industrial promotion of the Chicago area, the performance of specific services for members. What I have to say, however, does not reflect any official position of the association.

Since I am not speaking officially, I should perhaps identify myself personally. I was for a considerable number of years a member of the faculty of the University of Chicago in the department of economics and the school of business. I was later head of the department of economics and dean of the school of business of Washington University in St. Louis, and then, for an extended period of time, executive vice president of the Brookings Institution of Washington. In all these capacities I have had responsibility for studying the economic activity of our country; in the latter particularly, to carry on research concerned with that subject. Some of the members of the committee may be familiar with my study of the National Recovery Administration and the two-volume work on Government and Economic Life.

II. THE PRESENT POSITION OF THE LEVEL OF ECONOMIC ACTIVITY IN GENERAL

If I understand the purpose of these hearings correctly, it is to collect views on the present condition of our national economy and to consider methods—particularly governmental actions—which will be conducive to the maintenance of full employment and the avoidance of recessions.

It is unnecessary to point out to any member of this committee that the economic activity of our country is at this moment at an unusually high level. Each member of this committee knows that in the first quarter of this year our national income was running at the rate of $180,000,000,000;[1] that the gross national product for the first quarter was at the rate of $209,000,000,000;[2] that the Federal Reserve Board index of industrial production is at the peacetime high record of approximately 190;[3] and that—perhaps most important of all—approximately 57½ million people are participating in American production, and through their compensation sharing directly in the national product. Of these more than 56,000,000 are in civilian production.[4]

In view of the prediction of recessions during the latter part of the war, and the more ominous auguries of depression which followed the close of hostilities, it is worth while at least to mention some of the reasons for our present unprecedented activity. No cause is more frequently mentioned than the accumulated demand for goods which were unobtainable and which most Americans have been accustomed to assume as a normal part of their standard of living. So far as this is a force, it will remain one until this accumulated demand has been met. A second cause of current activity is undoubtedly the increase in the amount of money in circulation. This was 28.2 billions of dollars in March 1947, as against an average of 4.7 in 1929 and an average of 7 billions in 1939.[5]

A third reason is found in the figures earlier given—those relating to employment and national income. With nearly 60 million persons (not greatly less than half the population of the country) on pay rolls, it is obvious that there is a tremendous demand for goods generated by current income alone. With a working force earning, in wages, salaries, and entrepreneurial income at the annual rate of 148 billions before personal and social security taxes, there is a stream of income which, alone, generates an enormous demand for production. This contrasts with some 57 billions for the same elements in 1937 and with some 66 billions in the boom year of 1929.[6]

Not only has the stream of consumer income greatly advanced during the past few years, but millions of families have moved into substantially higher-income brackets. In the period 1941–46, inclusive, more than 2,000,000 consumer-spending units—for our purposes this may be construed as families—moved from lower brackets into the bracket of a $5,000 or more annual income. More than 8,000,000 families moved from lower incomes into the category of $3,000 to $5,000 annual incomes. More than 10,000,000 families moved from lower brackets into the category of $2,000 to $3,000 annual incomes. There was an actual decline of almost 4,000,000 families in the income bracket of less

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[1] Survey of Current Business, May 1947, p. 3.
[2] The same.
[3] The same, S–2.
[4] The same, p. S–9.
[5] Statistical Abstract of the United States, 1946, p. 386, and Survey of Current Business, May 1947, p. 17.
[6] Survey of Current Business, May 1947, p. 3, and Statistical Abstract of the United States, p. 270.

than $2,000 per year. This occurred while there was an increase of more than 6,000,000 in the total number of families.[7]

It should be particularly noted that these observations refer to current incomes and the demand which they generate. I shall make no reference to the accumulations of savings in the form of bank deposits, cashable Government bonds, and other sources of which consumers may currently draw. United States savings bonds series E, F, and G total some 51 billions. Time deposits equal 51 billions.[8]

A fourth reason which I believe should be mentioned is the apparent view of many industrialists that the outlook for business is good and that this is true for a considerable period ahead. This is contrary to the forebodings which we have had from many economists and particularly governmental economists. As evidence on this point, may I present to the committee the business outlook as expressed by the heads of a variety of businesses in Chicago.

III. THE BUSINESS OUTLOOK AS EXPRESSED BY THE HEADS OF A VARIETY OF BUSINESSES IN CHICAGO

I would like to file with this statement a copy of the proceedings of a 2-day conference on distribution held under the auspices of the Chicago Association of Commerce and Industry in February of this year and supplement it with certain statements made within the past few days by those who, in that conference, presented their views on the business outlook.

A glance at these proceedings will show that this is not an ordinary type of forecast. The views expressed are those of the presidents, chairmen, or other top officers of seven large companies. Each of these companies is a significant representative of an important national industry. Even more important perhaps is the fact that these companies together pretty well cover the gamut of industrial and commercial activity from the most perishable consumer goods through the most basic forms of heavy manufacture. The statements on the market outlook were made, respectively, by Gen. Robert E. Wood, chairman of the board of Sears, Roebuck & Co.; Oscar G. Mayer, president of Oscar Mayer & Co., meat packers; Bertram J. Cahn, president, B. Kuppenheimer & Co., men's clothing manufacturers; Courtney Johnson, assistant to the chairman of the board of the Studebaker Corp.; A. W. Peake, president of the Standard Oil Co., of Indiana; Gen. Thomas S. Hammond, chairman of the board of the Whiting Corp., manufacturers of cranes and factory and foundry equipment; and Edward L. Ryerson, chairman of the board of Inland Steel Co.

A summary of General Wood's views on the market outlook may be made in these quotations from his statement: "The so-called buyers' strike in consumer goods has thus far been confined to luxury goods and women's wearing apparel. * * * Sales in other lines are still at a high level, and thus far, show no signs of abatement. * * * Some manufacturers and retailers may not make as large profits as in 1946, but their results will compare favorably with their best prewar years. While their margins will narrow, they can make up some of it by gains in operating efficiency, and by better merchandising."

Within the past few days I have asked General Wood how far he would change these statements if he were making the presentation currently. His answer was that his statements would be the same.

Speaking of the outlook in the meat-packing industry, Oscar G. Mayer, president of Oscar Mayer & Co., said: "The largest per capita consumption of meat since 1911 is in prospect for 1947." What this means to the packing industry, which will process the livestock necessary to this meat consumption, is obvious. Its business significance is also clear when we realize that over one-quarter of the total cash farm income of American agriculture (the largest single fraction) comes from the sale of livestock to the meat industry. Mr. Mayer stated that "Last year, meat-animal revenue to farmers was about $7,000,000,000" and that "in 1947, due to somewhat higher prices, with increased supply, it may reach $9,000,000,000."

Again, within the past few days, these statements on the outlook in the meat industry, with their implications for agricultural prosperity, have been reasserted by Mr. Mayer. He says that while prices for meat products have sharply risen and although there are unusual variations in the relative prices for different types

[7] How to Profit From the Coming Buyers' Market, by Arno M. Johnson, director of media and research, J. Walter Thompson Co. (Monarch Printing & Publishing Corp. Lecture Reporting Service), chart 5.

[8] Federal Reserve Bulletin.

of meat products—especially in the low prices for lard relative to live hogs—the prospect for business activity has not deteriorated. He comments, "There appears to be an insatiable demand for meat even at these prices," and that "the outlook for livestock production makes it clear that packers will be very busy with processing."

Bertram J. Cahn, president of B. Kuppenheimer & Co., speaking for the business outlook in the men's clothing industry, summarized the conditions which he said have "created an insatiable demand for merchandise of an established worth and value, which has continued in force to date in the medium- and quality-price fields.

"Retail inventories of men's clothing are limited. It will be a very gradual process through 1947 to build and restore stocks. * * * The normal demand for men's suits is said to be 28 million units a year. The quantity processed in 1946 is estimated at 22 million, or 5 or 6 million units less. This situation has created a demand for 30 to 35 million suit units against a normal annual production of 28 million units. It follows that it will be fully a year before supplies can catch up with demand."

Commenting on this statement within the past few days, Mr. Cahn said: "If I were making the statement today, it would be the same. There is no relief from the pressure of demand or the difficulties of providing the supply, particularly from the point of view of obtaining the workers necessary to manufacture the goods which could be readily sold."

Speaking for the automobile industry, Mr. Courtney Johnson, assistant to the chairman of the Studebaker Corp., said, after analyzing the effects of war on car production: "Consequently, we have clearly for this year a demand for cars of 5,000,000 or over, just to replace the war-induced gap in our transportation."

"The industry cannot, in my opinion, build 5,000,000 automobiles in 1947." Pointing out that this could not be done because of the unavailability of materials, essentially flat cold steel, Mr. Johnson continued: "These simple facts indicate that there is more demand for new automobiles than automobile production will supply."

When I asked Mr. Johnson a few days ago if he felt that his prophecy of activity in the automobile business was still accurate, he said: "This statement would still stand. As everybody knows, we are unable to supply the demand for cars."

The president of the Standard Oil Co. of Indiana, Mr. A. W. Peake, said at our conference: "The oil industry had an unusually good year in 1946, and it is my expectation that 1947 will show further improvement." As of this week, Mr. Peake has made the statement: "There would be no basic change in my statement of the outlook for business as I gave it in February. There have, however, been some change in the figures. These modifications should be made:

"(*a*) There will probably be an 8-percent rather than 4-percent improvement in sales and therefore the demand for petroleum products in 1947 will be 31 percent (rather than 25.7 percent) higher than in 1941.

"(*b*) The industry is not now sure that it can meet the total national demand (as it was when I spoke in February). It believes it can meet the essential needs of the country. It is exerting every effort to meet the entire demand. There will be local shortages—as discussed in the papers.

"(*c*) The current building program of the industry will probably take care of the needed increase in annual capacity.

"(*d*) Some 14,000,000 barrels of oil products that would otherwise have been produced were not produced because of strikes—a factor which changes the supply situation from what was expected last February."

The Whiting Corp., of which General Thomas S. Hammond is chairman of the board, as a manufacturer of large cranes, metal-working machinery, and factory and foundry equipment, represents the heavy capital goods industry. General Hammond's statement concerning the business outlook began with these words: "Today our backlog of unfilled orders is the highest in our history. * * * Our backlog alone, with no other business coming in, would still represent a very good year's work. * * * New business is still coming in, even at the very extended deliveries which we have to quote these days."

Again, a conversation with General Hammond during the past day or two resulted in his saying: "I would make no change in the statement made last February. The market is still strong. Our biggest difficulty is in getting materials and supplies."

Finally, we come to the market outlook for steel production as expressed by Edward L. Ryerson, chairman of the board of the Inland Steel Co. Mr.

Ryerson said: "* * * Take a look at 1947. * * * The present demand far exceeds the available supply even on a 100 percent operating basis." Mr. Ryerson continued to explain that for scarcity production for 1947 he would estimate 92,000,000 tons, which is 29,000,000 tons more than was produced in 1929. He continued: "However, in terms of the outlook for 1947, I think most of us would agree that anything approaching an 85-percent-of-capacity operation would be a satisfactory outlook * * * that will be approximately 78,000,000 tons." On the basis of these figures, it is clear that the industry will be producing far less steel than it could sell during the year 1947.

In a conversation with Mr. Ryerson just before coming to Washington, he said: "My position is exactly the same as it was when I spoke in February."

The analyses presented in February did not include a statement concerning the building industry. Realizing the current importance of this industry in the economic scene, I asked, just before leaving Chicago, Mr. Gerhardt F. Meyne, one of Chicago's outstanding construction contractors, for his views on a number of matters in this industry. In answer to the question: "What is the current situation in the building industry in Chicago?" the reply was: "It is slightly on the decrease." Answering this question as applied to various types of construction, the replies were: "Industrial work is slightly on the decrease.

"Cheap home construction is on the decrease. Good home construction is on the increase; no new office buildings or hotels are contemplated, but loft buildings are being turned into office space. There is much planning for increase in hospital construction. At the moment, apartment buildings are being constructed where affected by public housing, publicly financed. Remodeling is on the increase, particularly department store renovation and demand for changes in fixtures."

Construction costs.—In answer to questions concerning movements in construction costs, the answers were: "In general, construction costs are slightly on the decline, especially as to lumber, mill work, cases, and cabinet work. Even though the last two of these are in short supply, materials for this work are becoming more plentiful. Metal shelving and sinks are more available but still in short supply, as is pipe used in plumbing, heating, and processing for industrial plants."

On specific items of cost, the statement is:

"A. Wage costs have been on the increase and reached a peak about June 1. Bonus wages are being demanded and paid for certain types of workers such as plasterers and lathers.

"B. Lumber costs: Dimension lumber is declining in price, but quality lumber is still in short supply and expensive, but not particularly black market, with the exception of plywood, flooring, and clear materials.

"C. Cement costs: These have gone up and will rise further if coal prices go up and transportation charges advance. Supply is not normal, but with an early commitment, cement can be obtained.

"D. Steel costs: Unless we have additional coal strikes, it is my opinion that structural steel prices will decrease approximately five percent. Sheets will remain in short supply for several years.

"E. Fixture costs: Fittings and valves are in short supply, especially in larger sizes. Cost depends upon the persuasiveness of the buyer, his past relations, and, very likely, some bonus payment.

"F. Paint costs: Paints, I believe, will become cheaper and of a better grade as regulations on imports of linseed and other essential oils disappear.

"G. Other items: Glass is declining, but the cost of installation is tremendously increased because of restrictive labor regulations. I see no change in the cost of brick, rough concrete materials, reinforcing steel, nails, flue-lining, sewer tile, ceramic tile, gypsum, dry-well board, and general plumbing goods such as tubs, toilets, and lavatories.

"Costs of materials in the building industry are all affected by railroad rates. Increases or decreases in these rates will influence the cost of everything that goes into construction.

"Labor market conditions: There is a great shortage of construction labor. Common labor in the large cities is in fair supply, but skilled labor is short in every craft, particularly in the larger cities. This is less true in the smaller towns, where the rigid restrictions of labor-union acceptance, regulation, and large initiation fees are less influential.

"In general in the Chicago area, including Cook County, we had in 1937 approximately 127,000 members of the Building Trades Council. The membership today is approximately 85,000. The average age in Chicago of skilled building mechanics is about 55 years.

"Cement finishers are scarce because of trade regulations. Skilled carpenters are hard to obtain. Bricklayers are in short supply all over the country. Lathers and plasterers are very scarce in Chicago in particular. We could use 100 percent more than are now available. Plumbers, steamfitters and electricians, glaziers and painters are in fair supply. The reason for the shortage of labor in the building industries is because of the uneconomical apprenticeship system.

"H. Legislative restrictions: Most large cities need revision of the zoning laws and their building codes. The use of power in a plant without the production of steam has resulted in the creation of industrial buildings which are not inappropriate in many residential neighborhoods. Thus located, plants have many advantages for employees, particularly the advantage of proximity. To establish plants in such locations requires changes in the zoning laws. Revisions needed in building codes are such as will place them on a performance or minimum-requirements basis rather than on the basis of specific materials, which is now typically the case."

I should like to interrupt here to put in the record a copy of Building Regulation in Chicago. This publication of the Chicago Association of Commerce and Industry represents a year and a half of expert study of changes needed to modernize the Chicago Building Code. It recommends a shift from requirements based on materials to those based on standards of performance. It outlines a procedure for code revision which is now being followed in Chicago and which, in my opinion, might well be followed in other large cities in which modernization is desirable.

"I. Some general effects on construction plans of the foregoing factors: The over-all effect of cost changes, even though prices are coming down in certain materials, is not resulting in stimulating construction; it is not producing the housing that is desired. Architects have many sketches in progress and are making some plans, but construction is no longer being let on a fixed-fee basis. Lump-sum firm bids are being requested.

"Industrial construction is being held up because of high prices and the inability to guarantee possession within a reasonable time. Remodeling and reconditioning are going on actively. It is reported that farm buildings are being expanded."

IV. SOME RELATIONS OF INFLATION AND EXPORTS

Since this committee is concerned with national policy, my observations should certainly conclude with suggestions which may be helpful for that purpose. Certainly, it appears to me, one of the committee's objectives is to attempt to maintain something of the high degree of business activity and full employment which now exists. Second, the broad objective is undoubtedly to be prepared to deal as quickly and skillfully as possible with any degree of recession which may appear.

In the first area—that is, the maintenance of our high level of production—we need, in my opinion, to be giving thought to the problems of an inflationary period rather than those of a recession. Not only are the monetary phenomena of inflation obvious, but living costs, particularly in food, are reaching a point which is of universal concern and where they lay the basis for the repeated demands for increased wages. The latter, in turn, give rise to higher prices, and so the circle goes painfully on.

In this inflationary situation American exports are playing a very important part. Concerning exports, may I make these observations: I doubt if any single economic phenomenon is surrounded by more fallacious thinking than are exports. From the mercantilists we have inherited the idea that exports are good in themselves, and we still retain, in describing the excess over imports, the deceiving phrase "favorable balance of trade."

I believe sound thinking about exports begins in recognizing that they are something which in and of themselves are always undesirable. They should be regarded as a payment. Our thoughts on this subject would be clarified if we thought first in terms of imports—that is, what are the things, if anything, abroad which we would like to buy—and then, "Are these things worth paying for in terms of what they would cost us?"

Current thinking on exports is, I believe, further confused by a widespread view that extensive exports are needed as a means of maintaining American economy. I realize, of course, that there are important industries, among which the production of cotton is outstanding, that depend on exports. I have no doubt that if any reasonable production can be developed in Europe, South America, and the Orient we will need to export substantially to buy what we need from abroad. But this is very different from saying that we should maintain these export shipments merely for the purpose of keeping busy the persons who produce the products.

The problem of exports is at present, of course, greatly complicated by the fact that they have become an important political tool. We must distinguish between using exports to buy imports and using them to buy foreign loyalty, or establish European governments, or to set up the industrial mechanisms of Europe or Asia. I doubt if one person in a thousand in the United States is aware of what we are doing with exports in this latter field. The facts of life in this matter are concealed under such gilded terms as "Fighting communism with dollars"; or, in referring to the difficulties of foreign countries, as a "shortage of dollars." The realities of this political mechanism would be far more clear to the American people if it were pointed out that we are really fighting communism with the food from their tables, the clothes which might otherwise be on their backs, the building materials which might otherwise be used for their housing, and that what a foreign loan really means is a promise to tax us, directly or indirectly, for the money with which to buy such things away from us in our own domestic market.

Observation of these facts makes it clear, I believe, that we are approaching, if we have not already reached, an emergency, if not a wartime, economy. We have reached a stage where Congress may well give consideration to rationing of certain products, of which food should be the first considered. Of course, prices themselves bring about a rationing of food—that is, food in quality and quantity goes to those who can best afford to buy it. If the situation gets increasingly serious, however, it may be well to recognize that price rationing of food in emergency conditions has at least three defects: (1) It does not distribute it in accordance with need; (2) it gives a justifiable basis for continuing demands for wage increases with their consequent higher prices and without giving any actual remedy to the situation—since the higher wages do not increase the supply of food; (3) it detracts attention from the real cause of high prices, namely, shortage, and gives rise to the feeling that the high prices result from some inept or malicious action of distributors, producers, or government.

The public will have a far sounder basis for judging the use of food as a tool in foreign policy to the extent that they are made conscious of the real meaning of exports in terms of their own living standards.

V. MAJOR RISKS IN RECESSION

It would be too much to hope that the present high plane of business activity will be maintained forever. Sooner or later the symptoms of recession will appear. From that moment every public official, this committee most of all, will be besieged with proposals designed to prevent further depression and to cure whatever degree of recession may have taken place already. A large proportion of these will be fallacious and this committee will have no more important responsibility than to prevent the enactment of these illusions into law.

The most general of these is the fallacy that depressions are due to overproduction, and hence are to be remedied by curtailment of physical output. Such restrictions defeat the purpose of recovery, if what is desired is the maintenance or expansion of employment. All that they can do is to maintain prices—that is, possibly protecting past investment, but at the cost of higher prices and continuation of unemployment.

A whole series of related fallacies will appear in the guise of fair trade practice. One of the most insidious will take the form of "no sales below cost." An effort to make such a provision legislatively effective not only involves a complexity of cost analyses which is beyond even a Government accountant, but prevents many manufacturers from producing and from employing—which are desirable—on a cost basis which, under the conditions, they regard as better than the basis which the regulations impose.

Without elaborating further on these proposals, it will be found that a very large portion of them will be merely ways of preventing active competition from bringing about readjustments. They will be founded on the theory of the maintenance of the status quo in financial terms, whether wages or prices or profit margins is the significant objective of recovery—whereas in reality recovery is real only in terms of employment and production.

THE CHICAGO ASSOCIATION OF COMMERCE AND INDUSTRY,
Chicago 2, Ill., July 18, 1947.

Hon. ROBERT TAFT,
Senate Office Building, Washington, D. C.

DEAR SENATOR TAFT: When I testified July 2, 1947, before your committee, I included in my statement a quotation which indicated that building in this area has been slightly declining during the early months of this year. Since I have returned, additional data have come to my attention which indicate that, while the early months of 1947 did indicate some decline from the corresponding 1946 months, the most recently reported months have again returned to 1946 levels or higher in most measures of building activity.

Attached are some tables of data to illustrate more specifically this point.

Sincerely yours,

LEVERETT LYON,
Chief Executive Officer.

Chicago building permits [1]

	Number of permits issued		Cost of construction for which permits were issued, millions of dollars	
	1946	1947	1946	1947
January	691	281	11.6	5.6
February	606	287	6.8	3.3
March	1,167	441	22.1	8.3
April	545	612	9.7	8.2
May	393	625	6.2	8.7

[1] City of Chicago Building Department data reported monthly in Commerce magazine, p. 2.

Chicago industrial area residential building [1]

	Number of dwelling units for which permits were issued		Valuation of residential building permits, millions of dollars	
	1946	1947	1946	1947
January	928	798	6.0	5.4
February	1,005	603	7.5	4.5
March	2,543	1,648	17.3	11.1
April	1,841	2,155	11.9	16.0
May	1,749	2,049	11.2	16.2

[1] Telephone report from Chicago regional office of U. S. Bureau of Labor Statistics. The Chicago industrial area includes Cook, Lake, Kane, Will, and Du Page Counties in Illinois, and Lake County, Ind.

Contracts awarded on building projects in Cook County, Ill. [1]

	Number of awards		Cost of contracts awarded, millions of dollars	
	1946	1947	1946	1947
January	677	1,240	12.9	17.9
February	628	1,426	15.5	21.7
March	1,165	1,646	26.8	26.3
April	1,354	723	30.8	17.2
May	2,301	726	32.1	24.1

[1] F. W. Dodge & Co. data as reported monthly in Commerce magazine, p. 2.

The CHAIRMAN. If agreeable, we will meet at 2 o'clock to hear Mr. Brown, and we will now hear Mr. John H. Williams, at the request of Senator Myers and others, and with the consent of Mr. Brown.

At the conclusion of the testimony of Mr. Williams we will recess until 2 o'clock this afternoon, and at that time we will hear Mr. Millard D. Brown.

STATEMENT OF JOHN H. WILLIAMS, PROFESSOR OF ECONOMICS, HARVARD UNIVERSITY

Mr. WILLIAMS. Senator Taft and gentlemen, if you wish, I will begin by identifying myself. I am a professor of economics at Harvard, and until this year have been a dean there, the first dean of the Graduate School of Public Administration. Since 1933 I have also been economic adviser at the Federal Reserve Bank of New York.

In preparing for this meeting, I was rather at a loss of how to go about it, whether to concentrate on the current situation and concrete issues, or to talk more generally about my understanding, my interpretation of this Employment Act of 1946. It seemed to me appropriate, since this is our first year under the act, in my prepared statement anyhow, to deal with the act, but I will be glad, so far as I can, to answer more concretely any questions you wish to put to me.

I think the crucial question with respect to our operations under this act lies in that division in the questionnaire that you addressed to economists, as between basic principles and short-run stabilization policies. I was very strongly opposed to the first draft of this act in the original Murray bill, because I thought it put too much emphasis on economic forecasting and too much emphasis on the function of Government in making good any gap in the gross national products that might be estimated for the ensuing year. That so-called "gap" provision of the Murray bill disturbed me a good deal, partly because I did not believe that is the best way to go at the long-run maintenance of high production and employment, and partly because I do not believe that we economists know enough about the job of prediction to make such a procedure safe. So I am very glad that the act was amended, and I strongly approved it in its present form. I understand it now contains no hard and fast commitments to any particular type of policy; neither does it bar out any kind of policy; and I think that is as it should be. But I would hope that the main emphasis would be on what you might call the basic principles, on how to improve the behavior of our economy in the long-run rather than on short-run stabilization policy.

That brings me to the question of how much do we know about forecasting? I think this is a very crucial question. One of your questions in the questionnaire about which I give my written statement is directed to that. I believe that as forecasters the economists have made a rather sorry record up to now. I think you can draw illustrations from any business cycle, but the two that have most interested me are, first, the general character of the predictions at the end of 1929; and, second, the general tenor of the predictions as we approached the end of the recent war.

I recall attending a joint meeting of the American Economic Association and the American Statistical Association in December of 1929. It was the custom at these meetings—done every year—to have the more prominent economic forecasters give their views as to the outlook. At this meeting the most optimistic forecaster said that the depression was already over, but it would not be recognizable to the layman until February of 1930—it was merely a stock-market crash. The most pessimistic forecaster said the depression would be over about Labor Day, 1930. Nobody present—and very few people, whether present or not, that I can recall—could forsee that we were embarking upon our most serious depression, and that it would last several years. That was the state of our forecasting ability at that time.

We come down now to the end of the war, and we are confronted with another major mistake of forecasting, using this time different methods, new techniques, what is known as "econometrics"——

The CHAIRMAN (interposing). What is that word?

Mr. WILLIAMS. Econometrics, not economics—the science of economic measurement, and particularly forecasting, but I would say precisely the technique envisaged in the Murray bill, in forecasting the gross national product 3 to 12 months ahead. Using those techniques and drawing regression lines to show the relation between total national income and consumption, they predicted unemployment up to 10,000,000 by 6 months after the end of the war. That prediction was fairly general and was taken up throughout the country, and similar statements were made by organized labor and others; and I think it had a great deal to do with the antideflation policies on which we embarked immediately after the end of the war. I think that was a major mistake. I don't criticize anybody because, going at the same problem in a much homelier and elementary way, and considering that we were going to have a drop of fifty or more billion dollars in expenditures, and demobilization of our armed forces of, say twelve millions, one could easily have come to a similar conclusion by less refined methods of prediction. But the point is that if we had had this Employment Act in its original terms, and had acted on it, we would have made a collossal error. There is no question about that.

So my feeling is that we are not now, with our present stage of knowledge, ready to embark upon precision forecasting for any kind of short-run stabilization policies based on that kind of forecasting.

My subject in the university is monetary and fiscal policy and international trade and that sort of thing, and it has been my duty as I have seen it over the last 10 years to hold in leash a lot of economists who were more enthusiastic than I am about the possibilities of short-run stabilization by what we call compensatory fiscal policy—in other words, precisely the original Murray bill. So far as we have gone, we have not proved that we can do it.

Senator O'MAHONEY. Have you been able to hold them in leash, Professor?

Mr. WILLIAMS. That remains to be seen.

Senator O'MAHONEY. But you were not able to hold your colleagues in leash?

Mr. WILLIAMS. I think they have been having some second thoughts in recent years—I will put it that way—and particularly as they have watched this very thing, they have been very much on the defensive. That does not mean that I do not strongly favor compensatory fiscal policy, because I do.

I think we should use it as a short-run stabilization device, but in a more cautious kind of way. I think we have to allow the business situation to develop up to the point where we are reasonably sure of what it is, and that means that if we are headed into a boom, at least we have to have some boom, and if we are headed into a depression, we probably have to have some portion of it in order to know what it is that confronts us. But then I think it ought to be possible, through compensatory fiscal policy to cut off the bottoms and the tops of the major fluctuations, and if we do that we would, I believe, have taken a long step forward. That would mean no repetition of the major depressions that we have had in the past. I think it is very important that we do that, and I think it involves the use of a cyclically unbalanced budget, and of cyclical variations of both revenues and expenditures, and cyclical debt management; and those are all subjects that are in the pioneer stage, that practically speaking we know very little about. Yet I feel that we now have got to substitute this kind of fiscal policy for the monetary policy managed by the central bank, on which we primarily relied down to the early 1930's.

One main reason for this change, and one reason why I think it is forced upon us, is that the continuous deficits of the thirties, and of course much more the great growth of the public debt during the war, have made it very difficult to manipulate the interest rates, compared with the old days. It is not possible, I think, any longer to have major variations in interest rates in response to central-bank money management. I think the consequences would be too great, not only for the banks, or even principally for the banks, but for the public and the Treasury as well.

I think it is not possible to manipulate interest rates applying to a public debt of, say, 250 billion dollars—something of that order of magnitude—until we get the debt down to smaller dimensions; in other words, I think we are really prohibited from the old kind of monetary manipulations, at least as far as interest rates are concerned.

I think we will have a large public debt with us for a long time. I was opposed to the general line of analysis which told us that the debt was unimportant because we owed it to ourselves. It is true that we owe it to ourselves, but it raises many serious economic problems, problems of friction, problems affecting investment and consumption, and how the tax burden rests on industry and consumption.

It is a very serious matter for a free-enterprise economy to develop a debt of this magnitude, and I think we will be finding out the implications of it for many years to come. Nevertheless, I think today that we can put too much emphasis on the priority of debt reduction against, say, tax reduction or other fiscal changes. I think we are in danger of swinging from one extreme to the other if we are not careful.

Senator O'Mahoney. But you do believe in debt reduction?

Mr. Williams. I do; yes.

Senator O'Mahoney. It may be interesting to know that the Treasury Department has balanced the books for the fiscal year 1947 on June 30, and that, as was announced this morning, the Treasury has a surplus of $754,000,000. That is the first time in 18 years the Government of the United States has had a balanced budget, and that $754,000,000 will be applied in the reduction of the national debt, which, I think, is a rather considerable achievement.

Mr. WILLIAMS. I do too. But I think those figures as we have them are merely pretty misleading.

Senator O'MAHONEY. What figures?

Mr. WILLIAMS. The figures you have just cited.

Senator O'MAHONEY. Why?

Mr. WILLIAMS. Because they should be on a cash basis, and on a cash basis we have, in fact, a large surplus, perhaps 6 to 8 billion dollars.

Senator O'MAHONEY. You are suggesting a different method of accounting.

Mr. WILLIAMS. Yes, sir.

Senator O'MAHONEY. Of course, we can act now only on the sort of accounting system that Congress has provided.

Mr. WILLIAMS. But that is bookkeeping. I am talking about the facts of the situation.

Senator O'MAHONEY. Now, will this be bookkeeping? Probably some time late this month or next, some two or three billion dollars of Government obligations will come through and the Treasury will be confronted with the problem of paying or refunding those obligations. Now for the first time there will be a surplus produced by receipts over and above expenditures, and that surplus of $754,000,000 will be applied to the debt, because the Treasury will not have to refund that amount of debt. That is a specific gain.

Mr. WILLIAMS. Yes; I agree. I think it comes down to a question of balancing all the various considerations. Surely I am in favor of reducing the debt, but I think it is possible to go too far on one line of policy. I think that perhaps our largest task in the fiscal field at the moment is to complete the transition from war finance to peace finance, and I think that should include tax reduction. I favored the recent tax measure that was vetoed.

Senator O'MAHONEY. Well, let me ask you a question in regard to tax reduction.

In discussing the Employment Act you have always discussed it in the form in which it was originally proposed, so I think perhaps I am justified in discussing the tax reduction proposal in the form in which it was originally introduced—until my colleague here, Senator Taft, declined to go along with the chairman of the Ways and Means Committee of the House. Now, if we had passed the tax-reduction bill as originally introduced and if we had reduced taxes as of January 1 last year, this $754,000,000 surplus and about $4,-000,000,000 in addition would have had to be applied, not upon the reduction of the $259,000,000,000 debt, but upon increasing the purchasing power of the income tax payers who, according to all reports and according to the testimony that was given to us by the previous witness, Dr. Lyon, are now receiving larger incomes than at any time in the history of the United States.

Mr. WILLIAMS. Yes; I think it would have been a mistake to have the tax reduction applied to the first of the year.

The CHAIRMAN. I don't want to get into this controversy, but it would not have affected the $754,000,000 surplus. The amount would have all come out in this bookkeeping business from next year's increase, next year's expenditures.

Mr. WILLIAMS. But I do think it was premature.

Senator O'MAHONEY. It would have increased our expenditures all right, when we ought to be decreasing them.

Mr. WILLIAMS. I do think it comes down to a question of how to divide such surplus on a cash basis, as we now have and have in prospect, I believe.

The CHAIRMAN. Mr. Williams, you started to say something about interest manipulation and the attempt to control the activity of business by this interest manipulation. I think that has become a more or less obsolete weapon, and I think you replace that with what you spoke of as debt control. Do you mean the tax and debt policy that we are talking about?

Mr. WILLIAMS. I would include taxes, expenditures, and debt, all three, in the policy.

The CHAIRMAN. What about control of credit?

Mr. WILLIAMS. I think there should be control of credit, but it has been made more difficult by the growth of the debt and difficulty of manipulating interest rates. However, I think much could be accomplished if we would unfreeze the wartime pattern of rates—interest rates.

The CHAIRMAN. You mean the pattern of interest based on the Government debt?

Mr. WILLIAMS. Yes; I think if we did that we could accomplish a good deal, really. The fact that the debt is so large makes the holders of it more sensitive to even small things than they were before. I think we could accomplish a good deal through manipulation of the short-term rate, and that has been a question, I think, most discussed, that aspect of it.

The CHAIRMAN. You spoke of taking the top off the boom and the bottom off of depression. How would you take off the top of the boom by these means that you are discussing?

Mr. WILLIAMS. I think in two ways. One is that the magnitude of a budget like ours today means that we have in it a certain amount of built-in flexibility, especially if it includes, as it does, a progressive income tax, and this means that in booms we are more likely automatically to have surpluses than was formerly the case, and more likely to have deficits in depressions. I think we ought to refrain from trying to balance the budget in depression years, and that we ought to have surplus in boom years, and that this would have the effect of cutting off the top of the boom and the bottom of the depression.

Senator FLANDERS. Are we in a boom year?

Mr. WILLIAMS. Yes; we are in a boom year. We are having a surplus, which is as it should be. Further than that—let me just finish on that—our budget now runs around 37 billion, and with our growing national production it does seem to me very likely that even the automatic changes that occur between booms and depression in a budget of that magnitude have a very considerable effect.

In the past, before we got on to this line of thinking about the problem, it was regarded as sound finance to balance the budget under all conditions, and that did matter very much when the budget was small; in fact, it was considered the wise thing to do under those circumstances, but now that the budget is large, I think it would be a great mistake for the Government to intensify the upward and downward movements as it would be doing if it pursued such a policy. I think it is much wiser to let the budget swing with the economic fluctuations. Beyond that, I do think it would be possible for us to take some conscious action, and my caution is against overdoing it, and particularly against being premature. But when the situation becomes clear I think we should take measures to increase the surplus in good times, and even quite deliberately to increase the deficit in bad times. But I would not be in favor of what is known as long-run compensatory fiscal policy, which is to have deficits over an indefinitely prolonged period in order to counteract contractive tendencies, so-called tendencies toward oversaving and underinvestment. I have always been very skeptical of this whole line of analysis. I don't think there has ever been any proof of the reality of these tendencies.

The CHAIRMAN. Of course, in this present act the tax situation is an entirely different element of the question, having nothing to do with management, but the question is whether your whole level of spending and taxation is too high relative to the national economy.

Mr. WILLIAMS. I say in my paper that I think the most important current phase in this area of fiscal policy is to complete the transition from war to peace, and I think the only effective method of putting the necessary pressure on expenditures is to announce a tax reduction and do what that implies. The difficulty always likely in democratic governments is that expenditures when broken down piecemeal can always be made to look very plausible. Every head of a department or governmental agency can make out a pretty good case for keeping his expenditures up. It is painful to put them down, and it is very difficult for anyone, particularly the man in the street, to have any clear judgment about who is right in the matter, yet in a matter of this magnitude it does seem to me that mistakes and extravagances of all sorts creep in. That is merely human nature.

Senator O'MAHONEY. That is not only true of the heads of Government agencies, but it is true also of the beneficiaries of the agencies, who constantly come to Congress and say "cut elsewhere but not here." And it is also true of Congress itself. It is even true of this Eightieth Congress, which is creating a new and expensive function of Government which we never had before.

Senator FLANDERS. Dr. Williams, Dr. Lyon, who testified before you, I felt was trying to convince us that we were still in a state of war, and that our economy was being affected by the undeclared economic war which we are now waging. Do you think that that position was well taken, and if so, how can we make this transition until the war is over?

Mr. WILLIAMS. That is the most difficult question you could ask me, I think. I feel this way about it: That we do have a new responsibility in the world. It seems to me we have recognized that already by the way in which we have gone at our postwar problems. I think, though, we have made some mistakes. Perhaps there are some things I have been interested in that you don't want me to speak about in this area. Nevertheless, I think we are in for a period during which we will have to give the rest of the world, and should give the rest of the world, very substantial help. I want it done in a business-like way. I am very much in favor of Secretary Marshall's statement that Europe should struggle with its own problems and try to work out some sort of integrated plan, then let us see where we can fit into it. I think that represents a real step forward in our planning with regard to foreign aid. Whether it means we ought to consider ourselves still in the war or not is a hard question.

I have said on earlier occasions, in my papers about Bretton Woods, and so on, that we should have continued lend-lease, and we should have continued to think of ourselves as being in war, and until perhaps three years after the end of the war, because the war does not end when the shooting stops. However, we have to deal with the situation as we find it today, and one thing that I think is very necessary to recognize is that the flow of goods and services from this country is already very high. It has continued really on a wartime level, just as high as when we had lend-lease. We are having this year an export of goods and services of the order of magnitude of $20,000,000,000, and an export surplus, counting goods and services, of, roughly, a billion dollars a month. It is important for us to recognize that this is going on, and that the new program, therefore, does not necessarily mean a further stepping up of the amount of strain on our economy. It more likely means continuing as we have been going for some time ahead, I don't know for how long, but I think there has been a tendency to exaggerate the burden that will be represented by this new program if we go forward with it. I don't know whether that is an answer or not. There have been suggestions that we go back to OPA and rationing. I would say the answer to that is "Yes" if we think of this program as put on top of our present foreign contribution, but I do not think that is the case.

The CHAIRMAN. You mean the present budget of about $4,000,000,000 for foreign shipments? That probably will be about as large as is contemplated at any time in the future.

Mr. WILLIAMS. I think so; yes. That is a very important point to bring out. I don't think it has been sufficiently brought out. What we need now is better organization, better integration of the foreign program. It has been too much on a piecemeal, hit-and-miss basis. I have been very much interested in this whole foreign program. I think we made a major blunder in taking up the Anglo-American loan negotiations in the last half of 1945 rather than in 1943, when we began to talk about Bretton Woods. I shall always think that was a major mistake.

The CHAIRMAN. The cart before the horse?

Mr. WILLIAMS. The cart before the horse. I don't know whether we will ever catch up now. But perhaps you don't want me to go too far with that.

The CHAIRMAN. Do you think the $4,000,000,000 is too large, or will prevent our having what we might call peacetime economy?

Mr. WILLIAMS. No; I don't think it is too large. I don't think it needs to prevent our having a peacetime economy. We have been in the process of catching up with many demands for goods that have been in short supply. I think we have been making progress. We have made mistakes.

We got off on the antideflationary basis, and I think that was a mistake. But I don't blame anybody too much. It was a pretty hard choice, pretty hard to say what was going to happen to us. I would have preferred the retention of OPA on a much more flexible basis than we had it. I think that if we had done that we would be better off today than to be largely without controls, as we are. We have had the largest rise in prices in our peacetime history—at least, in any recent period. It has been larger than after the First World War, but I think we are making progress nevertheless. We have caught up now, I think, in many of the consumer nondurable lines. Inventories have been accumulating, as would be expected under such conditions, but I don't think they have gotten out of hand at all, and to me there is no convincing evidence at the moment of a recession.

I might go just a little further with that thought. Meanwhile I believe that we have been revamping, reequipping industry on an unprecedented scale. It really started in the war. A large amount of capital expenditure was made at that time, public expenditure, but nevertheless directed toward improving our industrial equipment. Since the end of the war we have had a record volume of investment, and I think this is bound to express itself after a while in an advance of productivity.

The most notable thing that appeared after the last war was the increased productivity between 1920 and 1922, when we had an increase in output per man-hours of 10 percent per annum for 2 years in a row, as against the general average for the period 1899 to 1941 of 3 percent. And in the depression of 1920–21 we had a rather sharp drop of wage rate, about 20 percent, and the result of that was a drop in unit costs of 34 percent, which I think had much to do with the long period of high production from 1922 to 1929. And I am looking for a repetition of that as the most hopeful thing, the very best thing that could happen to us.

The CHAIRMAN. Do you think the relationship between wages and prices today, when prices are high, is nevertheless more normal than it was in 1920, after the last war? Isn't the relation better, regardless of whether they are both high?

Mr. WILLIAMS. I think, yes, the relation is better. I have been disturbed particularly by this second round of wage increases, because that makes you wonder whether there is going to be a third, but my general feeling is that the wage-price spiral has about run its course, and there have been, I think, a good many indications that that is the case. The pressure seems to have been relieved on many kinds of prices now since sometime in April, and I am hopeful that we will get by now and that there will be less of this spiraling. If that should happen, and if we could cut down on work stoppages—and I have been very strongly in favor of the Taft-Hartley Act—I don't pretend to know it in detail, I am not a labor economist—but in broad outline I think it is a step in the right direction, and when everybody gets settled down to taking it, it will have a good effect. If we could settle down on this basis and all put our minds to increasing productivity, I think we have the making of a fairly prolonged period of high production and employment, and that means cooperation of Government and business and labor. And we ought not to omit personal labor efficiency.

In some industries that is very important. In the building industry, that you were discussing with Mr. Lyon, it seems to me that is a principal factor, because the pace of the work is really conditioned upon the performance of the individual worker to a very high degree. I am hopeful in building that, with a moderate reduction in costs, such as I think we probably will have when we get materials assembled on the site, and no shortages and no restrictions, that building will go forward and will be a main prop under our economy for some time to come.

The CHAIRMAN. Do you think that wage increases which are not absorbed by industrial activity have been a rather unfortunate thing? That increased wages can be too high as well as prices?

Mr. WILLIAMS. I think they are always unfortunate. We had a very good illustration of that in 1937. I have always believed that the renewal of the depression in 1937 was primarily due to the rapid run-up in wage rates in the first half of 1937, which I think was the greatest of any half year in peacetime in our history.

The trouble with this whole problem is that wages are both income and cost—and some people emphasize the income side and purchasing power aspect, in which there is a good deal of truth, and others emphasize the cost aspect. I think the best one can make of it is that high wage rates are good for the country, and I am a very strong believer in high wages—they are good for the country provided they do not outrun productivity.

Senator O'MAHONEY. You want high wages, but you don't want to see them result in higher prices?

Mr. WILLIAMS. Yes, sir; I am in favor of a trade-union policy that is directed toward giving labor a substantial share in the gains of productivity.

The CHAIRMAN. And to the extent that the wage rate increases the cost, as reflected in the price, forcibly increased price, then it defeats its own purpose?

Mr. WILLIAMS. Then it defeats itself. And I think perhaps our new problem in this field is that labor is so much more strongly organized—and I think perhaps management also—that our industries are so much larger than they used to be, and the need for governmental participation in the settlement of these disputes is so much greater than it used to be, that wage increases in one area in which they might be justified, tend then to be communicated to other areas in which they cannot be borne except by a rise in prices, so that you get into a snowball. I think we have seen that happen in the last couple of years. I don't know that there is any way to avoid it. In part it is a good thing, because it is one way in which labor and other factors of production are directed into better industries and out of poorer ones. I think that to some extent you need to have that kind of pressure; we recognize it in the theory of international trade and it works just the same way domestically. But I think there is the danger in Nation-wide organization and Nation-wide bargaining, that it tends to overlook the difference between the efficient and less efficient industries, and between the more productive and less productive parts of the country, and so you have a policy that cannot be maintained except through continuous increases in price, and thus defeat yourself.

Senator O'MAHONEY. The theory of the President in wage and price policy I think can be summarized in this manner: He wanted to maintain a reasonable profit for the producers; he wanted to protect the consumers interest by reducing prices wherever they could be reduced, and he wanted to increase wages so as to give the worker a larger share in the over-all productivity, and to that end he felt that management would be wise to reduce prices in order to give the worker a better income. This action would at the same time protect the consumer's interest by holding prices down and the result would eventually be to increase production, and by increasing pay make it possible to balance these three different elements. That would seem to make the central point in the basic formula, the wise reduction of prices, or, at least, the holding of prices in line.

Mr. WILLIAMS. Well, I agree entirely with that. It is a very difficult matter, and one has no formula for it, in the very nature of the case. I would most of all emphasize price reduction, because its effects are most general. The difficulty with wage increases is that they are partial, they cannot be, and ought not to be, uniform, as that violates the theory of productivity, and the best way, I think, to get price reducion is to strengthen the competitive economic forces, as you have stated in the statement of the purpose of this act, section 2. I think that is entirely right. Of course, it is a mighty difficult problem, but that is the thing for us to work to, to make our economy more competitive.

I always take the automobile industry as a good model of what we want. To go back in its history, there have been improvements of product, accompanied by falling prices of the product, and by high wages. If we could do that on a national scale, over and over, it would give us the answer, I believe.

Senator O'MAHONEY. May I turn for a moment to that problem of export? The War Powers Act, with its authority to the President to restrain exports from the United States, terminated as of June 30 of this year. A bill was introduced to extend that export control to the 30th of June 1948. It has not yet been enacted. It suddenly became apparent to the country a week ago that certain oil companies were loading tankers on the Pacific coast for export to Russia. Of course, the oil companies didn't want the law enacted, because, without it, they would be free of any Government regulation to prevent the private owners of oil from shipping oil to Russia. As a result, on Friday last, I think it was, Congress passed a resolution very quickly to extend for 2 weeks, until the 15th of July, the power of the President to impose restrictions on petroleum exports and some others. Have you anything to say to the committee on the advisability of that sort of Government regulation?

The CHAIRMAN. I think I will put in that what they did was continue the Export Control Act, which controls all exports for 15 days, and we hope tomorrow to pass a permanent bill extending it for a year.

Mr. WILLIAMS. Well, I could not make a statement about that in detail, but in general I would be in favor of retaining export control. It seems to me, with the kind of world we are in today, that this country has got to retain foreign-trade control until we work into a more normal situation. I am in favor of foreign countries retaining their control and I don't see how we can avoid having some kind of control.

Senator O'MAHONEY. Should we have import controls, too?

Mr. WILLIAMS. Well, that is hardly necessary. Our trouble is that we don't know how to import.

Senator FLANDERS. Mr. Williams, you mentioned very briefly something about price control earlier. May I ask you whether you feel that regulation W, which imposes some credit restriction, should be continued or not?

Mr. WILLIAMS. I think it should be continued.

Senator FLANDERS. You think the regulation should be continued?

Mr. WILLIAMS. I would like to have regulation W continued permanently. I am not in general in favor of controls, but it seems to me that there are some lessons of experience that we ought to learn. I am in favor of the permanent retention of stock-market control, because I think it has been proved that we need it. And I think we need permanently a regulation of consumer credit, because it threatens to get out of hand always in a boom.

Senator O'MAHONEY. Those are limitations upon a free market.

Mr. WILLIAMS. It is a limitation, yes.

The CHAIRMAN. I am sure the Government has always attempted in one way or another to control the expansion of credit.

Mr. WILLIAMS. Yes, sir.

The CHAIRMAN. The principle does not seem to me improper.

Mr. WILLIAMS. That is perhaps the oldest, you might say "orthodox" type of Government control, of regulation in this era. Now we have gone from a general monetary control to some specific credit controls, and I would not want to go too far or too fast on that line, because you could land in complete regimentation. These two, stock market control and consumer credit control, I think it has been proven by the record are a necessity.

The CHAIRMAN. You gave us your suggestion that one of the causes of the recession or depression of 1937—I do not entirely agree with you—was the rise in wages and prices to a point where the consumers could not buy. Railroad wages got to a point where the railroads did not have money for maintenance, but they could not raise prices. The automobile industry raised wages but did not raise prices. But what is your basis for the depression of 1929? We are here to try to find ou how to prevent a depression. What brought that about?

Mr. WILLIAMS. I think we embarked on the period that ended in 1929 under pretty favorable circumstances. We had had a rise of prices after the war, and then a drop, just the kind of thing I would hope that we could now avoid, a 40-percent smash really, but then after we cleared away from that, owing primarily to this great increase in productitvity between 1920 and 1922, I think we had costs and prices very well in balance, and it turned out that we had very large deferred demands, though we were not so conscious of them then as we are now, the demand for automobiles, construction, and so on. Also the rest of the world needed our help. There were many similarities to this period. What I think happened in that period was that profits got too high and stayed there too long. It is necessary to have a certain amount of play in profits, because the businessman is the risk taker. He has to make up his mind in advance, and I think he has to be compensated, and it is necessary to permit him to offset losses against profits. Nevertheless, I think it is possible for profits to be too high, and I think that is an organic part of this whole question of wages and prices and output and productivity, and I believe that we got into a rather exalted state of expectation.

The CHAIRMAN. Prices did not go up. That is what puzzled everybody.

Mr. WILLIAMS. Prices did not go up, and that fooled a lot of people. And I think they did not go up because of the high productivity. We were able to give a demonstration of our capacity in production, perhaps second only to that of the last war. Certainly it was something new in our history and it fooled a great many of us. Though prices did not rise, we were in a profit boom.

The CHAIRMAN. Did that mean that there was too much saving?

Mr. WILLIAMS. There was a good deal of saving.

The CHAIRMAN. Corporate savings I mean, and what not.

Mr. WILLIAMS. Yes; I think so.

The CHAIRMAN. How did the profits, excessive profits, affect the economy?

Mr. WILLIAMS. I think it affected speculation on the stock exchange and led to undue enlargement of plants and multiplication of new companies, and financial pyramiding, and all the accompaniments of a period of unduly high profits, and more particularly profits from speculation in securities.

The CHAIRMAN. Over investment?

Mr. WILLIAMS. Yes.

Senator FLANDERS. Did you say that you lay more stress on the investment factor than you do on the returns from it not going back into the market in the form of effective demand?

Mr. WILLIAMS. That is a tough question, isn't it? The returns flow back either through investment or through consumption. The question is one of balance, what level can be sustained. It is possible for investment to feed on itself. While the process is going on, the money income is flowing back all the time. It is a high level of output, but as soon as that process stops, it is just like the overaccumulation of inventory, as soon as that profit stops you have deflation, and I think it would have been wiser, if we could do that over—and I think this is very much the concern of this committee—it would have been wiser to have diverted more of that income into higher wages, or lower prices. The fact that prices did not rise confused us, but looking back I think we can see quite clearly that prices should have fallen in that period.

The CHAIRMAN. Isn't it true that agricultural prices were low then?

Mr. WILLIAMS. Agricultural prices—there is where the war comes in again. These things are always confused by war—overexpansion of agricultural capacity during the war, and agricultural distress, even in the twenties, with foreign markets shutting themselves off from importation of agricultural commodities, and technical revolutions in agriculture. There are many strands of the explanation.

Senator O'MAHONEY. In addition to that, there was a positive program of deflating agricultural credit in 1921.

Mr. WILLIAMS. Yes; agricultural credit was greatly deflated. There is no question about that. That is one of the good things, I think, about our present situation, that we do not have, to the same extent, the inflation of agricultural credit that we had after the first war.

Senator FLANDERS. In your suggestions of what we ought to have done, it seems to me you are coming back dangerously close to the necessity for a little accurate prophesying.

Mr. WILLIAMS. Well, I wish we could do it.

Senator FLANDERS. I wonder if there is anything we can do, short of prophesy? Can we do this: Can we keep ourselves continually informed as to where we are and how we seem, at the moment, to be going?

Mr. WILLIAMS. I have one paragraph in this statement on that. It seems to me that one of the great benefits conferred by this act is that it now gives us a procedure for studying where we are and where we are going. I don't believe there is any specific technique for it; but the fact that you have had the leaders of business, labor, and so on, here to talk about the kind of thing that you yourselves are dealing with, that we have the Council of Economic Advisers—all of this machinery put together, I say, puts us in a much better position to study this difficult problem. I still do not think we are going to be able to predict very much. In a private economy it is really the function of the individual businessman to do it. He takes his chances, and if you keep the system functioning efficiently, it doesn't work too badly. But we do need some kind of analysis of the economic situation as a whole. I think we have got that now in the machinery of this act.

Mr. PATMAN. There are one or two points, Mr. Williams, that I would like to inquire about.

You made the statement, as I understood you, that you do not agree with the policy or the theory that our national debt is not a burden because we owe it to ourselves.

Mr. WILLIAMS. Yes.

Mr. PATMAN. I have heard that statement quoted. Of course, I don't believe in the statement either, but I don't know of anyone in Government who has made that statement.

Mr. WILLIAMS. I don't know of anyone in the Government that has, but it has been made.

Mr. PATMAN. I know it has been quoted around, and often quoted, but when you ask Members on the floor of the House to state the source of it and they have stated the source, it has turned out not to be the true source, and I have never yet found where that statement came from, and I would like to know.

Mr. WILLIAMS. Well, I don't know that anybody believes it literally, but we went through a phase in the late thirties of rationalizing the continuous deficits, and this note did tend to be emphasized.

Mr. PATMAN. You don't know anyone in the Government who is responsible for it?

Mr. WILLIAMS. It depends on what you mean by "Government."

Mr. PATMAN. Anyone in a responsible position.

Mr. WILLIAMS. Well, "responsible"—it depends on what you mean by that, too. I think you could go through the governmental agencies and find a good many people who almost believed it, but it would not be worth while.

Mr. PATMAN. You mentioned about the depression of 1937. Do you recall that the adjusted service certificates for the veterans of World War I were paid on June 15, 1936, and soon thereafter it is my recollection that the Federal Reserve Board anticipated some inflation by reason of the payment, and wanted to make some anti-inflation move, and it doubled the reserve requirements of banks?

Mr. WILLIAMS. I remember that.

Mr. PATMAN. Don't you think that had something to do with the depression of 1937?

Mr. WILLIAMS. I think it may have.

Mr. PATMAN. And was a rather important factor?

Mr. WILLIAMS. No; I don't think it was a major factor. The change in interest rates was slight.

Mr. PATMAN. I am not talking about change in interest rates.

Mr. WILLIAMS. A more serious effect, I think, was that the removal of the excess reserve put pressure on the big city banks to dispose of their Government holdings.

Mr. PATMAN. That was one of the Federal Reserve requirements.

Mr. WILLIAMS. That is right. However, these securities were for the most part almost entirely taken up by the interior banks, and after all, not very much happened except, I think, we were in a state of alarm about it for a while. That is undoubtedly a fact.

Another factor often mentioned is that the budget was temporarily balanced in that year. That I do not put much emphasis on, either. It was very temporary, and completely unconscious. But as opposed to the wage-rate increases, the big strikes and so on of that year, I think these are minor matters, having minor effects.

I believe that is all I have, gentlemen.

(Mr. Williams submitted the following papers:)

STATEMENT OF JOHN H. WILLIAMS, HARVARD UNIVERSITY, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT, JULY 2, 1947

THE EMPLOYMENT ACT OF 1946

I

The questionnaire addressed to economists by the Joint Congressional Committee on the President's Economic Report is divided into two parts: I, Basic principles; II, Short-run stabilization policy.

The most fundamental question with respect to the Employment Act of 1946 is where to put the emphasis as between the long-run principles applicable to an economy like ours and the policies designed to correct or to compensate for short-run fluctuations in the volume of output and employment. Since the introduction of the original Murray bill in January 1945 this has been the heart of the debate.

Perhaps the most significant question in part II (3):

"Is there any way to make analyses of current economic data which deserve sufficient confidence to form the basis of Government action designed either to prevent or to stimulate changes in the business situation, from 3 to 12 months ahead?"

The original bill put a heavy emphasis upon the requirement that the President should transmit to Congress a national production and employment budget, "which shall set forth in summary and detail for the ensuing fiscal year * * * the estimated size of the labor force * * *; the estimated aggregate volume of investment and expenditure * * * required to produce such volume of the gross national product, at the expected level of prices, as will be necessary to provide employment opportunities for such labor force * * *; and the estimated aggregate volume of prospective investment and expenditure * * *" actually expected in the ensuing fiscal year.

If the anticipated gross national product fell short of that estimated as required for full employment, the difference was to be regarded "as a prospective deficiency in the national budget." To meet this deficiency the President was to be required to set forth a general program for encouraging private investment and expenditure, and to the extent that this program was deemed insufficient to provide full employment, the President was to be required to "transmit a general program for such Federal investment and expenditure as will be sufficient to bring the aggregate volume of investment and expenditure * * * up to the level required to assure a full-employment volume of production."

I think there can be no doubt that, if the bill had been approved in this form, its principal effect, despite the professions of some of its advocates, including Senator Murray, to the contrary, would have been to commit us, as fully as the most enthusiastic supporters of compensatory fiscal policy could have wished, to a policy of offsetting fluctuations in private investment and consumption by Federal budgetary changes; and we would have been committed to basing this compensatory fiscal policy upon a forecast 12 months ahead of the national production and employment budget.

In the debate in Congress and throughout the country this was the controversial issue. I was opposed to the bill in its original form and in favor of the act as finally approved, which changed the name of the national production and employment budget to the President's Economic Report, dropped the reference to "a prospective deficiency in the national budget," and deleted the section providing for Federal expenditures to cover this deficiency. As I interpret the Employment Act of 1946 as finally approved, it carries no hard and fast commitment to any specific type of policy and at the same time does not bar out any type of policy, including compensatory fiscal policy. Though the act still provides, as I think it should, for annual estimates of the expected levels of production and employment and of the levels deemed necessary for "maximum" production and employment (the phrase "full employment" is wisely avoided), the dropping of the "gap provision," as its supporters called it, greatly decreases the dependence of Government policy upon precision forecasting of the gross national product and its composition.

These, in my opinion, were wise changes. As it now stands, the act represents a great step forward. While refraining from outrunning our present knowledge in the application of economic analysis and technique to governmental policy, it recognizes fully the concern of the Government for the national economic welfare and provides machinery and a procedure for dealing with it.

II

I take it that the broad objective in carrying out the provisions of the act will be to preserve and improve our kind of economic system while continually striving, in the light of experience, to remedy its defects. Much depends upon how the problem is posed. I think we can conclude from the historical record that the private-enterprise system as we have seen it develop in this country has been characterized by productive efficiency and capacity for growth unmatched by any other kind of economic system of which mankind has had experience. Its great defect has been its instability and insecurity. There are many who believe that the instability is inherent in the nature of the system, and that as private capitalism develops into more advanced stages fluctuations in output and employment become more violent, with an underlying tendency toward stagnation. This in one form or another has been the thesis of the Communists, the Socialists, and within the past decade or so of the Keynesian economists, whose main objective, I think it should be recognized, has been to retain our kind of economic system by improving its stability.

Whether our economic system, as it develops into more advanced stages, tends to become more unstable is difficult to determine because the record has been shot through with wars and their after effects, on what up to now has been an ever-expanding scale. Most of the very worst depressions, the chief exception perhaps being that of the nineties, came in the aftermath of war. Who can say today how much the severe maladjustments of the interwar period, including the great depression of the thirties, resulted from the First World War, and how much from causes inherent in the nature of our economic system? But, taking the record as we find it, there is no room for doubt that Government must play a greatly increased role, as compared, for instance, with the ninteenth century, if we hope to prove that our kind of economic system can function acceptably to the mass of the people whose well-being is dependent on it; and the fact that we face the question after the world's greatest war, and in a world in which so many other nations appear to be seeking other kinds of solutions, makes the question more challenging than ever previously.

We shall need to use both short- and long-run policies. The business-cycle theorists have been quite right in pointing out that if cumulative upward and downward tendencies are allowed to run their course they may destroy our economic and political system; it is a grave question whether we could survive a recurrence of the early thirties. But, on the other hand, quite as much has been said about long-run tendencies which threaten to undermine the vitality and powers of growth of our economic system; and this kind of explanation has frequently been offered as to why the recurring great depressions have tended to become more severe. Granted that both types of policy are necessary, I would put the greater emphasis on what the committee's questionnaire calls the "basic principles," partly because this is the more fundamental approach, and partly because in our kind of political-economic system, and in our present state of knowledge, it seems to me the more feasible.

III

This brings me back to the question of forecasting. Thus far, as a tool of prediction economics has made a sorry record. Though one could draw illustrations from almost any phase of any business cycle, the two worst instances in my lifetime came when we most needed to be right. At the end of 1929, at a joint meeting of the American Economic Association and the American Statistical Association, the most prominent forecasters of those days differed as to whether the depression would be over by February, or by Labor Day, 1930, and no one foresaw that we were entering upon the worst depression in our history. The other occasion was in 1945, when the econometricians, using precisely the techniques laid down in the original Murray draft of this Employment Act, predicted unemployment of up to 10 millions within 6 months after the end of the war, and laid the groundwork for the antideflationary policies of the immediate post-war period. There is no nearby likelihood, in view of this record, that fiscal policy can be a precise instrument of stabilization.

Until economic forecasting has proved itself—and I continue to be skeptical of how much can be achieved in view of the complexity of the problem and the nonmeasurability and unpredictability of so many of the data, including particularly human behavior in a free society—I think we are likely to have more success in cutting off the tops and the bottoms of the larger fluctuations than in attempting to iron out the business cycle altogether. Before acting on the basis of predictions, it will probably be wiser to wait and see what really is developing. Such a procedure would leave room, and this seems to be essential, for corrective tendencies within the business situation to operate, while preventing cumulative maladjustments from getting too seriously out of hand.

But with this kind of reservation I do agree on the necessity of compensatory fiscal policy—including a cyclically unbalanced budget (with surpluses in good times as well as deficits in bad), cyclical variations in both taxation and expenditures, and cyclical debt management. Its function should be to play the kind of role which until the 1930's was played by the Central Bank. Even before the last war it was becoming clear that one price we would have to pay for continuous budget deficits was the submerging of monetary policy by fiscal policy; and with the great growth of the public debt during the war, it is being recognized increasingly that the possibilities of varying the interest rate as a means of controlling economic fluctuations are now much more limited than formerly, though my own view has been that we should unfreeze the wartime pattern of rates and could then exercise considerable effect through variations in the short-term rates.

Since 1914, we have seen the Federal budget grow from under a billion dollars a year to something over 30 billion dollars at present, or about one-sixth of the gross national product. This is a revolutionary change in the American economy, and it will probably be years before we entirely appreciate its implications. Obviously a budget of this magnitude provides room for variations in Federal revenue and expenditure which could have a powerful effect upon the level of output and employment. But this is a pioneer field, and one beset with political as well as economic difficulties. The first and at this time the most important task, I think, is to complete the transition from the wartime level of revenue and expenditure. For this reason I favored the recent tax-reduction bill as probably the only effective method of putting upon expenditures the pressure necessary for finding out what they reasonably need to be and letting the country know what the tax burden, on a peacetime basis, is going to have to be.

The machinery and the procedure provided by the Employment Act of 1946 can perform an important short-run function. The Report of the Council of Economic Advisers and its continuing work through the year, the President's own Economic Report, and the hearings, studies, and report of the joint congressional committee provide an opportunity for analyzing current tendencies and bringing together the knowledge and the collective judgment of the community in more effective fashion than has ever previously been possible. These, together with the fact that the business community over the past year has seemed to be more conscious of the problem than in previous periods of expansion, seem to me to constitute our chief reliance for knowledge as to where we are going from year to year. As I have said, once that knowledge develops into reasonable certainty as to the short-run trend I would rely primarily on fiscal policy for moderating short-time economic fluctuations. One advantage of a budget of the present magnitude (whatever may be its disadvantages) is that deliberate compensatory fiscal action would be reinforced by the automatic "built-in" flexibility that a tax structure based largely on the progressive income tax affords.

IV

The main task, however, in carrying out this act should be to improve the vitality of our economic system. The war revealed the enormous productive power of this country when our efforts are united upon a common goal. There is no precedent in history for the expansion of output that occurred, despite the taking of 12 million men into the armed forces, between 1939 and 1945. Perhaps its most extraordinary aspect was that, though about 45 percent of the Nation's total effort was devoted to war production and private capital formation and production of consumer durable goods were virtually suspended, civilian consumption as a whole was at the highest level it had ever reached. It was fundamentally the expansion of output, coupled with the good sense shown by the community in saving a large fraction of its money income, that was responsible for our comparative success in preventing inflationary developments during the war.

Thus far in the postwar period, though we have made mistakes, we have on the whole been fortunate. Although hampered in many lines by the unprecedented loss of work through strikes, reconversion has been fairly rapid. The deferred demands and the wartime savings (combined, I think, with the buoyancy and adjustability of an economy running at high employment) prevented any large initial drop when the war ended; and since the first quarter of 1946 production and employment have risen sharply. Though widely discussed for the past year, no convincing evidence of a recession has yet appeared; and if one should occur, it seems unlikely to be serious or prolonged. Though supply is catching up with demand for a growing number of consumer nondurable goods, the large demand still unsatisfied for consumer durable goods, construction and other capital goods, and the need of the rest of the world for our goods and services should provide the basis for high employment for some time to come, provided production and consumption are not checked by excessive costs and prices.

The great challenge of the postwar period is whether in the conditions of a free society, without the regimentation of a war economy, we can continue to enjoy a large, growing, and reasonably stable volume of production and employment. This is the objective of the Employment Act of 1946. If our efforts are to be successful they will have to be directed primarily, I think, not toward any merely quantitative and mechanical offsetting of fluctuations of private consumption and investment by Governmental investment and expenditure (though as I have said fiscal policy should have an important secondary role), but toward making private enterprise function more effectively within itself. We need to strengthen the forces and the motives that make for vigorous growth even when the wartime stimulus is lacking; and as production and employment grow, we need to learn how to preserve a better balance of the complex relationships that exist in a modern highly organized economy such as ours. This is a task that suggests the need of continuous study rather than a blueprint of legislative or administrative action. The great virtue of the act as finally approved is that it provides the machinery for such study rather than a specific policy or program. I was much pleased also that this was the note struck by the first report of the Council of Economic Advisers.

The heart of the problem lies in the relations of prices, costs, and profits. Though these have long been a main concern of economic theory, they have been overlaid in recent years by preoccupation with monetary and fiscal compensatory analysis, and the tendency has been to regard price-cost behavior as a kind of force majeure to be "offset" rather than corrected. It is surprising how little we know, and can agree upon, with regard to these relationships, and what course to steer in order to avoid merely (*a*) letting them take their course, (*b*) compensating for them by monetary and fiscal manipulation, or (*c*) subjecting them to direct control. None of these by itself is adequate, and the third is foreign to our system in ordinary peacetime conditions.

Since the war we have made the mistake, I believe, of lifting the controls too soon. A flexible price control, such as many favored in 1946, would have been better than the rigid system which the administration insisted upon, and much better than the virtually complete absence of control which in the past year has resulted in the greatest rise of prices in any comparable peacetime period. Another major mistake was the excessive pressure for wage-rate increases which had its origin, at least in part, in the mistaken antideflation policies of the immediate postwar period. But it now seems that the wage-price spiral may have run its course. Perhaps the main threat at present is that the high and uncertain costs of building may produce a set-back. But we have usually done our building in periods of high income rather than low cost, and a moderate drop in building costs, together with improved labor efficiency in that industry, would probably be enough to set construction going in adequate volume. Meanwhile, our very large export trade is providing a powerful stimulus which should go far to bridge any gap in total output and employment until construction gets strongly under way.

A combination of rising incomes and falling prices is the heart of economic progress under the free-enterprise system. An advancing economy is one that relies more and more on better technique and organization to increase its output, and more and more upon the rapid diffusion of the benefits through price reductions and income increases to expand consumption correspondingly. The mainspring of growth is productivity. After the last war we had an increase in productivity that has few parallels in our history. Output per man-hour increased for two successive years at the rate of about 10 percent a year (against a long-run average rate of 3 percent during the years 1899 to 1941). Coupled with a fairly sharp decline of wage rates from the top of the postwar boom, it produced a 32-percent drop in the unit labor cost in manufacturing from 1920 to 1922. This pronounced fall in unit labor cost undoubtedly had much to do with the prolonged period of prosperity that followed. But there is reason to believe, I think, that in the prosperous twenties profits were too high too long, and that the wave of investment and speculation they engendered were a major cause of the great depression that ensued.

Thus far, following this war, there has been little evidence of increased productivity, but it should be in the making if the collective wisdom of management, labor, and Government can be effectively focused on the need of it. Large-scale expansion of plant and equipment began with the war, and since the end of the war capital formation, particularly in manufacturing, has proceeded at a record-breaking pace. Many industries are in the process of adopting and applying new techniques developed or perfected during the war. The wear and tear of all types of equipment during the war years has necessitated replacements on a large scale. The reequipment of large sections of American industry, together with the application of new technical processes, should result in a substantial increase in the physical output per unit of labor employed. But these changes will take time to make themselves felt, and for the period immediately ahead, probably the greatest possibility of a sharp increase in productivity lies in increasing the efficiency of labor. This is particularly true in some industries (such as building) where the speed of the individual worker sets the actual pace of production.

We must find some other method of settling labor disputes than the plethora of strikes that has characterized the postwar period. Though I am not enough of a labor economist to pass on it in detail, the Taft-Hartley Act seems to me a most important step toward evening up the responsibilities as well as the privileges of labor and management and toward minimizing strikes that have a paralyzing effect on the whole economy. I am particularly pleased by the provision for a committee of Congress to continue to study the problems and the operation of the act.

I strongly favor a high-wage policy, and a trade-union policy which insists on labor's sharing adequately in the benefits of increasing productivity. One of the questions about which we know too little is whether, from the standpoint of sustaining demand for goods and services, advances in wage rates ought not to be considered as a valid claim upon profits, coordinate with reinvestment. This is a most difficult question. Much would depend upon the circumstances, and due allowance would need to be made for profits incentive and for the need of capital expansion to promote the growth of output and real income. But I do think that in the economic literature of the past too little attention has been given to the question.

Wage rates are both income and cost, and quite a different kind of problem is raised when wage rates are increased in advance of productivity. We saw the consequences of such an advance in 1937, when the round of wage increases in the first half of the year, perhaps unparalleled up to then in any peacetime period of our history, undoubtedly had much to do with the renewal of depression. Such wage-rate increases lead to a cost-price spiral which almost always terminates in depression. Another difficult aspect of the wage problem is that wage increases in the more productive industries tend to spread to the less productive which cannot pay them without raising prices. Similarly, wage increases in the more productive parts of the country tend to spread to the less productive parts. To some extent these effects are unavoidable, and are part of the process whereby labor and other factors of production are moved out of less efficient and into more efficient industries or parts of the country. This is a process which has long been familiar to students of international trade theory. But it applies as much or more to production and trade within a country. The greatly increased strength of organized labor, however, particularly the growth of Nation-wide unions and Nation-wide collective bargaining, and the increased participation of government in the settlement of labor disputes have raised new problems of this character which will require intensive and continuing study.

The fact, however, that wage increases are not and should not be uniform, and that many workers do not share in them, or do so only very slowly, constitutes a compelling argument for emphasizing price decreases as the most general method of distributing the benefits of increasing productivity to the general mass of consumers. This in turn suggests that one of our main objectives must be to remove obstacles to the effective functioning of competitive economic forces. The act states in its declaration of policy that its purpose is to "have the Federal Government * * * use all practicable means * * * to coordinate and utilize all its plans, functions, and resources * * * in a manner calculated to foster and promote free competitive enterprise. * * *" Continuing study directed toward this end should be a major concern of the agencies set up under the Employment Act of 1946.

In this brief statement I have omitted many aspects of the problem of postwar production and employment. I have said nothing about agriculture, which many others are more competent to discuss. Except for the reference to the bearing of our large export balance on our current volume of production and employment, I have not attempted to discuss our foreign problems, though at this juncture they seem to me of paramount importance both for us and for the world. I shall conclude with one more reference to fiscal policy, not from the standpoint of its short-run uses, but from the much more difficult and I think more important standpoint of its long-run effects upon the economic structure. This is a pioneer subject. Taxation is essentially restrictive, and we shall probably be a long time in learning how to distribute the burden so that it will rest as lightly as possible on both consumption and investment. On the expenditure side, there will undoubtedly be a growing need for outlays that can be undertaken only by the community as a whole. I am sympathetic to public expenditure to promote higher standards of health, education, and security. By such means we can help to put a floor under consumption and at the same time increase the productivity and general well-being of our people. But such a program should not be confused with the policy, much discussed during the thirties, of compensating for long-run contractive tendencies toward oversaving and underinvestment. I have been skeptical of the reality of such tendencies, but to the extent that they may occur, the best attack, I think, is through policies designed to promote a vigorous growth of the economy from within itself, and particularly in the continuing study of price, cost, and profit relationships.

The CHAIRMAN. Thank you very much for coming down, Dr. Williams. We will adjourn now until 2 o'clock.

(Whereupon, at 12:45 p. m., the committee recessed until 2 p. m. this day.)

AFTER RECESS

(The committee reassembled at 2 p. m., pursuant to recess, Senator Ralph E. Flanders presiding.)

Senator FLANDERS. The committee will come to order. Mr. Brown, will you take the witness chair, please? I am sorry we had to defer your statement, and also sorry we were late in starting.

STATEMENT OF MILLARD D. BROWN, PRESIDENT OF THE CONTINENTAL MILLS, PHILADELPHIA, PA.

Mr. Brown. Mr. Chairman and gentlemen, my name is Millard D. Brown. I am president of the Continental Mills of Philadelphia, manufacturers of woolen fabrics.

The invitation of Senator Taft to appear before your honorable body is greatly appreciated. The manner in which the Congress acts on the matters contained in the questionnaire accompanying your invitation will determine the future form of our Government, as well as the personal freedom of our citizens.

Our forefathers gave us a Constitution which contains the following words: "The United States shall guarantee to every State in the Union a republican form of government." Today, very few speakers or writers refer to our "Republic." For more than 15 years we have heard and read of our "democracy," and there seems to be a deliberate attempt by many to establish a democratic form of government in these United States, based on the European pattern.

There are in our country 68 organizations, each of which contain the word "democracy" in their name, which are dedicated to change our Government to a communistic pattern of democracy.

Two amendments to our Constitution have been responsible for this trend away from our Republic:

The sixteenth amendment giving Congress the right to lay and collect taxes on incomes, without limit; and

The seventeenth amendment providing the direct election of Senators.

These are the causes of this creeping change which, if continued, will take from us our individual freedom and substitute national control of every action of the lives of our people.

The fundamental tenet of communism, as expressed by Karl Marx is:

> From each according to his ability, to each according to his need.

Because of the enormous sums which can now be collected in taxes, our National Government is usurping the functions of the States and local governments.

By offering subsidies to local governments, the National Government is bribing them to accept social rules and regulations which encourage our citizens to lean on government instead of their own resources. I was astounded, recently, to hear the Governor of a great State remark publicly that it was spending $120,000,000 annually in relief. That this should be possible in times of our greatest prosperity seems beyond comprehension.

Because of the ease of collecting taxes from incomes, we have built up the greatest national bureaucracy of all history.

The Congress has found it difficult to reduce Government expenditures 10 percent from the $37,000,000,000 budget suggested by the President for the present fiscal year.

That our Central Government should take an average of 25 percent of the incomes of all our business corporations and all personal incomes means that prices of all products which go into our markets must be raised to provide that amount.

If we are to lower prices we must have very much greater economy in government.

We are now in a readjustment period. Demand in some lines of goods is slowing up materially. This readjustment will come to all branches of industry, one by one, as shortages in various lines become less.

It is possible that had the President signed the new tax bill, the tax savings of our people might have shortened this period of readjustment.

We must look forward to a further decline in general activity this year and a rise in unemployment, due to a gradual slackening in demand and a shrinkage in export shipments.

Yes, some of our people are becoming more careful in their expenditures. Some prices are beyond the range of reason. This applies particularly to food, clothing, and housing.

Our economy cannot exist half-free and half-controlled.

About 160 agricultural products are enjoying some manner of Government price support or control.

Not long ago the President made the following statement:

> Responsibility for lower prices rests squarely on industry.

Figures reported by the National Industrial Conference Board, at about the same time of the above quotation, seem to place most of the responsibility on Government controls:

> Industrial (manufacturing) prices are up 67 percent from 1939–41 average.
> Farm products are up 137.3 percent.
> Foodstuffs are up 116.6 percent.
> Excluding farm products and foodstuffs, the all-commodity index is up 52 percent.
> Workers' average hourly earnings are up 84 percent from 1939–41; weekly earnings are up 97 percent.

Food and clothing are the greatest single percentage of our cost-of-living index. Prices of these cannot be materially reduced unless control and support prices are removed. A controlled economy is a static economy.

I am opposed to all price controls, supports, or rationing of commodities in time of peace. Our economy has become too big and intricate for analysis. Therefore, we are not wise enough to legislate controls that will solve our future economic problems.

I am also opposed to maximum- and minimum-wage rates set by law or regulation.

If our country is to progress in the future, we must have a fluid economy, and prices must be allowed to fluctuate according to demand and supply.

All of Europe is operating under close controls and these socialistic practices are not operating successfully. They are deterring rather than stimulating rehabilitation and production.

Even Britain's comprehensive and well-implemented control system has been unable to hold the price line or increase production.

The questionnaire accompanying your invitation seems to suggest that your committee is contemplating controls in anticipation of a serious depression. I do not contemplate such a happening if we restore a free economy in our country.

Leaving my general statements I will now endeavor to answer your specific questions briefly and to the point.

PART I

Question 1: There are few prospective buyers for ordinary day-to-day needs who lack the wherewithal to buy. Many are deliberately refusing to pay prices for merchandise they feel is too high-priced. This applies to the ordinary run of consumers' goods.

Questions 2 and 3: Generally, wages and salaries are very high. This, however, would have little effect on our present situation if labor was producing to its full efficiency. Production, generally, is below prewar standards in spite of more efficient machinery.

Recently, a friend of long standing, who has been a civil-service employee for many years, inspected a factory processing steel products. As we left the plant, he remarked, "I thought our civil-service employees had an easy time of it—but those fellows make us look like hard workers."

It is not the cost of building materials that is holding back housing and industrial building, so much as the high cost of labor due to restricted production and delays due to numerous strikes.

From nearly all lines of manufacturing the great complaint is that labor is producing less and less as wages increase.

Question 4: It is impossible definitely to lay down any particular rate of return on invested capital. Some businesses and industries have small invested capital in proportion to the volume of their business. In many businesses there are greater credit risks than others. In others there may be great risks in the large and sudden fluctuations in the price of their raw materials. Public utilities, on the other hand, run no risks as those just mentioned, but in most cases their invested capital is larger than their total yearly gross income.

A reasonable net return, in most cases, would range between 6 and 10 percent.

Most firms must somehow manage to make additions to earned surplus in profitable years, if they are to improve their productive facilities and working capital. This is particularly true of 85 to 90 percent of our industrial firms, because they employ less than 500 persons each and are not in position to finance publicly for improvements and growth.

Every year many firms go out of business. The reasons are many.

With high taxes and uncertainty as to costs of labor, there is little encouragement for new firms to enter business. Therefore, there are fewer new businesses starting each year, and the number going out of business is increasing.

Question 5: What do we mean by profit margins being too high? Who is to determine when a certain firm's profits are too high? Will it be some bureaucrat who has had no business experience? What is to be the penalty if some bureaucrat determines profits are too high?

In a free market competition is too keen for any producer to maintain high prices for any considerable period.

Question 6: As about 90 percent of the cost of any manufactured article is made up of wages and taxes, the present method of wage setting will some day bring another depression. We will then have to pass through another period like 1929-33, unless labor is wise enough to adjust wage rates to meet economic conditions. We can pay too high a price for industrial peace. I am a firm believer in fluid wage rates, adjusted by mutual consent, in accord with existing economic conditions. There should be no maximum or minimum wage rates set by law.

Question 7: If wage agreements are not made I believe it likely that there will be serious strikes, just as there have been in the past year.

When people are selfish they must learn their lessons through suffering.

There are two methods of adjusting wages to keep them in line with economic conditions. One is to adjust wages up or down with the cost-of-living index. We are trying that plan at our factory. So far it has worked out well. Perhaps that is because it has been on the upward trend. I believe, however, that our employees will stand by their agreement in this matter, as they have in all others.

Another method of adjusting wages up or down is to make adjustments in line with the market price of the product. It is very easy to determine the percent of wages paid to the market value of the merchandise delivered. If the wages paid are 50 percent of the selling price of the product and the product will sell at 90 percent of its previous price, wages would be reduced 10 percent. If at the end of an accounting period wages were less than 50 percent of the sales, the firm would make additional payments to the employees accordingly. If, however, they were more than the 50 percent, the employer must absorb the difference.

The day will come, within the next decade, when we cannot support our present wage schedule. We will then find we have paid too high a price for industrial peace.

In times of dire need each must be willing to take some risk in a patriotic endeavor for the benefit of all. He who has the most at stake must take the greatest risk.

Question 8: I believe in free markets and free prices at all times, excepting only in time of total war.

In part IV my answers are as follows:

Questions 1, 2, and 3: Until our business improves our purchases of equipment and supplies will be held to the minimum. The woolen industry is going through its adjustment period. We are operating at 50 percent of capacity and losing money every month. We have a definite program for improving our equipment, which will be carried out when our business returns to normal.

Question 4: We are deliberately taking losses today in order to give employment. Even if we could afford to take more loss we would not obtain more volume under present market conditions.

Question 5: Our level of productivity per man-hour is the same as last year when we were running 100-percent capacity. I doubt that we can obtain much more efficiency until more efficient machinery or methods are devised.

Productivity is nearly 5 percent over 6 years ago.

Senator FLANDERS. Thank you, Mr. Brown. I have made two or three notes as you went along, that I would like to base some questions on.

On page 2, the middle of the page, you said that—

> We are now in a readjustment period. Demand in some lines of goods is slowing up materially.

I know that so far as the woolen industry is concerned that is true, because there are many small woolen mills up in northern New England where I come from, and I know that they perhaps have been as badly hit as any other industry in the country during this readjustment period; however, the testimony this morning, on the whole, would indicate that that is not a general condition; that there are not many lines of goods in which demand is slowing up materially. That was the report, as you will remember, from Chicago. Do you feel that in your district there are other lines in which demand is slowing up, besides your own, which we know to have had a serious decrease in demand?

Mr. BROWN. We make a great deal of full-fashioned hosiery in Philadelphia and vicinity, and that is slowing up very materially also. We buy some of our cotton yarns from the South, the coarser cotton yarns, and that market is very much easier, showing that that particular business is slowing up from its great rush.

Senator FLANDERS. You say that prices have softened in that field?

Mr. BROWN. Yes.

Mr. FLANDERS. Have the prices softened in hosiery?

Mr. BROWN. Yes, they have. I believe recently there has been an effort on the part of some of the hosiery houses to raise their prices a little bit because they were paying a little higher price than they did for labor, but business fell off, so they may have to go back partially to the former prices.

Senator FLANDERS. Another point. About a third of the way on page 3 you say that about 160 agricultural products are enjoying some manner of Government price control, and in the next to the last paragraph on that page you state, what is of course true, that food and clothing are the greatest single percentage of our cost of living index, and prices of these cannot be materially reduced unless control and support prices are removed; that a controlled economy is a static economy.

I question whether Government support has affected prices of food in any important case except as to the price of potatoes, and I think one other that I do not remember at the moment, but the general impression is that—well, the fact is, I think, that the free market prices of all these things are well above the Government-controlled prices, potatoes being the most important exception. I wonder if you feel that we could remove the support from those prices, and thereby get the price down, so long as the free market prices are so far above the support prices?

Mr. BROWN. I think we probably could not overnight do anything of that kind. I think we could over a period of a year.

Another raw material which is controlled, in fact, bought by the Government, is wool, which is our raw material commodity, and we are above the world price on that, even including the duty.

Senator FLANDERS. I was speaking of food more particularly than wool.

Mr. BROWN. I am not so familiar with the controls on the various food items. A friend of mine gave me an idea on that the other day, a man who is in the commission business, but I didn't make any notes except he feels that a lot of the food prices are held up by those Government controls or nonrecourse loans and things like that.

Senator FLANDERS. So far as food is concerned, it would seem that the disconcerting fact is that the free market prices have gone up far more than the so-called administrative price group in manufacturing. Farm prices in general, except where they are held up by Government support, are perfectly free to follow the market, and they are the ones that have gone up to the greatest extent. So I would be inclined to believe that Government interference, so far as prices are concerned, cannot be blamed for the largest single element in the cost of living, which is food.

There is one other point I was going to bring up. Along in the middle of page 4 you say:

> The questionnaire accompanying your invitation seems to suggest that your committee is contemplating controls in anticipation of a serious depression. I do not contemplate such a happening if we restore a free economy in our country.

Now I would like to ask you Mr. Brown, if you feel that we had a free economy in this country leading up to 1929?

Mr. BROWN. We had.

Senator FLANDERS. And yet we had a very bad depression.

Mr. BROWN. Yes. I am talking about the immediate future here. I think we are going to get a depression in another 7 or 8 years, but not now.

Senator FLANDERS. Would you be favorable to the idea of doing something about it if we knew what to do when that time approaches in 7 or 8 years?

Mr. BROWN. If it can be done without stymieing our economy entirely. One of the controls that I think might operate unfortunately in that way would be the control on wages, the attempt to keep wages too high when that time comes. I had a little experience on that in he last depression, which makes me feel that what I found out at that time would be true again.

In 1929 we all went along and held our wages up to the level of that time, hoping that it would be over in a year or so, but it began getting worse all the time and with less employment. In 1932 I called all of our employees together. Our business was low and we were losing money very materially, and I told them that we could do business, I felt sure from my survey of the market, if we could cut our wages 40 percent, and that would go from the top to the bottom. They agreed with me that it was worth trying, and we reduced our prices accordingly and we started on the upward trend from that time on in 1932, while most people didn't come around to that until 1933. In other words, we were able to get on a level that the people could afford to pay for the merchandise they needed.

Senator FLANDERS. You feel that that action produced a larger net weekly income to your employees than they would have had otherwise?

Mr. BROWN. Yes, sir; it did, because they were only working 2 or 3 days a week. They had more to live on.

Senator FLANDERS. Do you see any practical possibility of applying that same formula outside voluntarily, as you suggested?

Mr. BROWN. Well, no; I wouldn't think of that; but I would like to see all these prices and wages free from controls and minimums and maximums, so that when the time comes the proper adjustment can be made mutually between employer and employee.

Senator FLANDERS. You are not making any argument that the Government should undertake that process?

Mr. BROWN. Absolutely not. That has got to be done by voluntary action, in my opinion.

Senator FLANDERS. Do you feel that there is anything the Government should have been doing in the period leading up to the 1929 crash which might have decreased its seriousness?

Mr. BROWN. Well, of course, that was brought about by speculation mostly, and the only way that I think you can cure speculation is by increasing margins. People were pushing the stock market up and everybody thought they were rich, and in a few months they found they were all poor.

Senator FLANDERS. You would not be opposed, then, to the early imposition of a requirement for larger margins on stock-market operations?

Mr. BROWN. I am very much in favor of that, because it is a gambling game anyway.

Senator FLANDERS. That gets the Government into the picture.

Mr. BROWN. It does; but that is a different thing. It is not an ordinary business transaction, to my mind. It is a will-o'-the-wisp proposition, and for everyone's benefit. I think larger margins than 10 percent, which existed at that time, would be much better for the country.

The CHAIRMAN. What would you say about the control on installment buying, that Mr. Williams mentioned this morning?

Mr. BROWN. I don't think we can control that too much. I think there again we ought to have satisfactory margins, but I don't think we ought to let them go wild, or anything of that kind. I think that should be more of a State proposition than a United States proposition.

The CHAIRMAN. On page 8 of your statement you say that your own business productivity is up nearly 5 percent above prewar. The best figures we have gotten indicate that industry as a whole has not yet reached prewar standards. How do you account for this difference between your own business and business in general?

Mr. BROWN. We have a very peculiar set-up in our plant, Senator. We have not had a strike since World War I, have had no labor difficulty. Some years ago we put our people, all of them, on a single piecework plan, or on a group piecework plan. We many years ago gave them all the social advantages that they are kicking for today in some of these other industries. For 20 years or more, when we have made profits, which is all of those years but three and possibly this year, we have given them a percentage of the profits we made. Besides that, our labor turn-over is very small, probably the smallest in the textile industry of anywhere in the country, and the majority of our employees have been with us more than 15 years, many of them 25 and 30 years. So we have no suspicion of each other trying to get the advantage and we work together. We call it the "Continental family," all of us do, and we realize that we have got to serve the customer together or we don't get along. That is all.

The CHAIRMAN. Are you organized?

Mr. BROWN. No, sir; we never have been.

The CHAIRMAN. Have any attempts been made to organize your plant?

Mr. BROWN. Several of them, but our people are not interested. We are paying the highest wages in the textile industry today. Our people average $1.46 an hour.

The CHAIRMAN. Senator Myers, would you like to question the witness?

Senator MYERS. I am very happy, Mr. Chairman, to have a citizen of my native Philadelphia here to testify before this committee, and I am sure, too, that Mr. Brown's concern has contributed much to the economic development of Philadelphia and Pennsylvania. We are happy to have you here, Mr. Brown.

Mr. BROWN. Thank you, Senator.

Senator MYERS. Of course, you know that in the report which this committee filed earlier in the session this statement appeared:

> The basic problem which this committee has to consider is the method of preventing depressions so that substantially full employment may be continuously maintained.

That is the objective of this committee, and although you do have a pretty full statement here, it would seem to me that the only recommendation you have to make to this committee is that the Government do nothing and you believe the Government should leave business and agriculture entirely alone. It seems to me that is the recommendation you make to this committee as the best method of preventing a depression and of maintaining full employment.

Mr. BROWN. That is correct.

The CHAIRMAN. While you were out I suggested to the gentleman that we had that condition prior to 1929, and I believe Mr. Brown did agree that there should be control of margins in stock-market speculations, so I think Mr. Brown is committed to that one point of governmental control. Is that right, Mr. Brown?

Mr. BROWN. Yes, sir.

The CHAIRMAN. I do not think he has made any other recommendation yet. I am wondering whether that would have been enough to have kept us out of the depression in 1929?

Mr. BROWN. I don't know. Our business started to slide off a little bit in 1929, and I think that was due to the fact—and we made careful market surveys in our business—that the people were taking their money and not buying clothes and things of that kind, but were gradually getting into this stock-market speculation, so it seemed to me that everybody was speculating in something and it didn't require very much of a stake to go in and take a chance.

Senator MYERS. I note, Mr. Brown, that on page 3 of your statement you mention the President's statement that responsibility for lower prices rests squarely on industry. You then cite some statistics and indicate that these statistics, reported by the National Industrial Conference Board about the same time as the President's statement, seemed to place most of the responsibility on Government controls. The last of that statistical information you provided indicates that the hourly earnings of workers are up about 84 percent from 1939 to 1941, and weekly earnings are up about 97 percent.

Mr. BROWN. Yes, sir.

Senator MYERS. I don't understand your statement that these figures prove that most of the responsibility rests on Government controls. I wonder if you will elaborate a little?

Mr. BROWN. Well, I have been informed—I know as to some commodities—but I have been informed that there are about 160 different agricultural products that are either supported by nonrecourse loans or direct Government buying or other methods of one kind or another to keep the prices up, and I feel that all of those ideas or supports of that kind keep our economy static. We cannot shift with the times.

Senator MYERS. Which comes first, the checken or the egg? Do high prices come before increases in salaries or do increased salaries and wages come before high prices?

Mr. BROWN. No; I think when we are in a normal demand situation——

Senator MYERS (interposing). No; I want my question answered, please. Are we in a normal demand situation today?

Mr. BROWN. No, sir.

Senator MYERS. That is what we are dealing with, then, the situation today. Different rules may apply in a period of normal demand or of abnormal demand. But again, which comes first, the wage increase or the increase in prices?

Mr. BROWN. Well, now, that is something I don't believe anybody can tell you, because conditions alter situations. I think that when you are on the upward trend and there is a great demand for certain products, the prices come first and the wages follow; when you are on the downward trend, commodities will generally go off first and wages will follow.

Senator MYERS. In view of that statement, would you say then that prices come first and then the demand for higher wages?

Mr. BROWN. Yes.

Senator MYERS. Isn't that exactly what is happening today?

Mr. BROWN. What is happening today?

Senator MYERS. The Bureau of Labor Statistics issued a statement today to the effect that workers in manufacturing plants received an all-time high average of $48.36 a week during May, and this was more than $6 above the wartime peak and $1.36 above April 1947. But the crux of the situation is that in terms of real earnings—in other words, in terms of purchasing power—the Bureau said that the 15-percent increase in average weekly earnings since May 1946 had been offset by an increase of more than 18 percent in consumer prices during that same period. That is the situation which confronts us, Mr. Brown, constantly spiraling and increasing prices, that quite naturally lead to a demand for increased wages to meet the increased prices.

I don't think it is quite fair for witnesses to come before this committee, or come before Congress, and make the statement that wages, increased wages, are the sole cause——

Mr. BROWN (interposing). I have not made that statement, Senator.

Senator MYERS. Or the primary cause, the only cause for increased prices.

Mr. BROWN. I have not made that statement, Senator.

The CHAIRMAN. He said that prices came first and wages followed.

Senator MYERS. He did that in response to my question. I am not referring to you, Mr. Brown, but I say we have had so many witnesses who have so testified. This committee is charged with the responsibility of doing something, if we can do something, to stabilize prices and to reduce prices. So I think the increase in wages during the last year have not met the increase in the cost of living. They have been more than offset by consumer prices. Now, where does that leave us and what do you suggest we do?

Mr. BROWN. I made the suggestion that you take off your controls and get back to a demand economy, where prices are set by supply and demand rather than by fiat of the Government.

Senator MYERS. Didn't we do that when we abolished OPA?

Mr. BROWN. I want to suggest further, they are not all off yet. Agricultural prices are still supported by the Government.

Senator MYERS. What price controls are still on?

Mr. BROWN. Don't some of these support measures of the Government for these commodities increase the price?

Senator MYERS. On the contrary, practically all of those agricultural products, with one exception, are selling far above the support price. If they came down to the support price, prices would be lower, so we cannot say these supports for agricultural products are the cause of the present high level of consumer prices.

Mr. BROWN. Well, the only thing I can point to is what the chairman pointed to a little while ago, the question of potatoes, but I am not a farmer and I don't know a great deal about those things, and I imagine there are others besides that. I do know something about my own commodity, which is wool. We buy a lot of wool, and I know domestic wool is higher than the world price, plus the duty, today in the United States of America; the selling price is fixed by the C. G. C.

Senator MYERS. Coming back to page 1 of your statement, Mr. Brown, I should infer from this that you are advocating the repeal of the sixteenth amendment.

Mr. BROWN. I certainly am, or a limitation put on it, one or the other.

Senator MYERS. If we repealed it, what would you suggest in its place?

Mr. BROWN. Just what we had before.

Senator MYERS. Do you think that America is the same as it was in those days? I mean, don't you think it has grown? It costs more to run the Government. Don't you think we must have today a much larger military and naval establishment than we had in those days?

Mr. BROWN. Surely, but we don't need all of the authority that you have here to raise the money, because you can now take anywhere up to 100 percent of some people's wages or income, and you can take 50 percent of somebody else's, and none of somebody else's. That isn't the American way of doing business.

Senator MYERS. You are not—let me put it this way—you are advocating the complete repeal of the sixteenth amendment?

Mr. BROWN. Yes; apportion it among the States, as provided by the original control of that proposition.

Senator MYERS. What do you suggest in its place?

Mr. BROWN. I suggest either a limit on the amount the Federal Government can take from anybody, or that we go back to the original authority in the Constitution, with certain taxes according to apportionment to the States.

Senator MYERS. If we didn't have a tax on income today, a graduated income tax based on ability to pay, how would we raise $30,000,000,000 to run this Government?

Mr. BROWN. By taxing everybody the same.

Senator MYERS. Regardless of their ability to pay?

Mr. BROWN. Absolutely.

Senator MYERS. You mean that the laborer making $2,000 or $2,500, should pay the same rate of taxation as the man making $100,000, $200,000, or $300,000?

Mr. BROWN. Yes. That is the American way of doing it.

Senator MYERS. Well, it may be your idea of the American way, but it is not my idea.

Mr. BROWN. I know we differ on that.

Senator MYERS. I know you are a very useful citizen and I have high regard and respect for you, but of course, we can have differences of opinion on these matters.

Mr. BROWN. Yes, sir.

Senator MYERS. Do you know that Congress has made every effort to economize?

Mr. BROWN. I think they have.

Senator MYERS. They have made a great cut in expenditures, 3 billion dollars, maybe more, maybe less, which means that we are still going to have a Government that costs us in the neighborhood of 33 or 34 billion dollars or more.

Mr. BROWN. That is an awful lot of money.

Senator MYERS. Of course, it is a lot of money, and yet this Congress, which is an economy Congress, has scrutinized every item and yet is not able to reduce it more than 2 or 3 billion dollars. Now, certainly, this Congress is not a spendthrift Congress. It is not a New Deal Congress. Congress is endeavoring to save money and to cut down on every item and to cut out every function of government which they believe is not necessary, and yet it is going to cost $33,000,000,000 or more, probably much more, to run this Government for the next fiscal year. Where are we going to get the money?

Mr. BROWN. That will take 20 to 25 percent out of the incomes of the people of this country, which is too much for this Government of ours, besides our State and local taxes.

Senator MYERS. Well, Mr. Brown, it seems to me we are doing pretty well now. We have the highest national income that we have ever had.

Mr. BROWN. And the largest debt.

Senator MYERS. And we find business enjoying higher profits than they have enjoyed in a long period of time. We found that 1946 was a fine year, and I think America is rather healthy today. I see many inequalities and many inequities that I would like to correct, but over-all, generally, I think we are doing pretty well. Now, what is it that is so wrong with our Government's way of doing things? And the word "democracy"—I find no fault with the word "democracy."

Mr. BROWN. What kind of a democracy do we want?

Senator MYERS. There may be a lot of organizations that misuse the name—and there are some—but to get back to our situation, what is it that is so wrong today? One thing is prices are too high. Generally speaking, I think there are some other things that need correcting too. We hope to maintain this high level of employment—and there are close to 60 million employed today, and that is fine, that is splendid. And our national income is high. I want to bring prices down so that we can continue this high level of employment, and I think that unless we do, we may run into trouble. Now, what is it that is so wrong?

Mr. BROWN. I can tell you very easily what is wrong. To begin with, we have a very serious situation in the amount of debt that we owe. It could not be helped. There it is. Handling that debt is a very serious problem.

Senator MYERS. What do you think we should do with that debt?

Mr. BROWN. That debt has to be retired, but we can't do it too fast. That is one thing—because then you are going to upset your economy and cause deflation if you do that.

Senator MYERS. I agree with you it will take time.

Mr. BROWN. The next thing is to reduce the running expenses of Government. You made a good start on that this year.

Senator MYERS. Before we leave the debt, do you believe that we should have debt reduction or tax reduction, or both?

Mr. BROWN. Both.

Senator MYERS. You do believe that some of these savings should be applied to debt reduction?

Mr. BROWN. Absolutely. And not too much at one time.

Senator MYERS. Well, with 260 billion dollars debt we can't retire much at one time. Do you have any idea as to the amount that we should reduce the debt this year?

Mr. BROWN. Every time you reduce the public debt and take these bonds back you are reducing that much currency in circulation, and that action is deflationary. But it has got to be done. I wouldn't want to say whether it ought to be 5 billion or 10 billion, but it has got to be something every year. Probably it could be 5 billion without causing serious deflation. But I don't know. I don't pretend to know. I am just a plain businessman.

Senator MYERS. You are a good businessman, too, and we are not economists. We hope to reduce the public debt; in fact, there is a bill now pending in the Senate providing that wherever savings were made we should reduce the public debt by a minimum of $2,600,000,000. But that is snarled in conference; nothing ever happened to it. I think we should reduce the public debt too.

Mr. BROWN. I think we should reduce Government expenses as fast as we can. I don't think this idea is very deflationary, because we are paying too high income taxes now for peacetime operation. And all those taxes are reflected in cost of products we are buying. It doesn't come out of the profits, as you think. It comes out of the income of the people of this country.

Senator MYERS. Do you think we should reduce taxes now?

Mr. BROWN. I think it is going to help offset any deflationary effects of the reduction of the income—within limits.

Senator MYERS. You mean the added purchasing power in the hands of the people by reason of reduction of taxes?

Mr. BROWN. Yes. When you are reducing the debt, I think at the same time you ought to reduce the taxes, so one offsets the other.

Senator MYERS. How much do you think the mass of the American people would save—how much additional purchasing power do you think they would have under the tax bill that was vetoed, the same tax bill which it is now indicated may be again passed by this Congress?

Mr. BROWN. It depends on what you do. If the lower brackets are reduced 30 percent, they have 30 percent more to spend.

Senator MYERS. How much is that in dollars and cents?

Mr. BROWN. How do I know? How do you know?

Senator MYERS. We do know. It was in the Finance Committee's report.

Mr. BROWN. Well; I didn't read it. You did.

Senator MYERS. Well, I will tell you what it was. The factory worker, the average man earning $2,500 a year and supporting a wife and two children on an income of $50 a week, would be benefited by this bill to the total amount of 54 cents a week. That is what he would save. Now, in Pennsylvania——

Mr. BROWN (interposing). There are quite a few, aren't there, who would be exempt from taxation?

Senator MYERS. The average man making $2,500 a year would save through tax reduction afforded him in this bill, 54 cents a week. He could not buy many automobiles and refrigerators and radios for 54 cents a week. And may I point out to you too that in Pennsylvania——

Mr. BROWN (interposing). You don't mean that employees earning under $2,500 a year would have to pay taxes too?

Senator MYERS. Certainly they would. They would pay probably 20 percent less in taxes than they are presently paying.

Mr. BROWN. They then would save 20 percent?

Senator MYERS. Twenty percent. That is just the percentage.

I am interested in dollars and cents, because the idea is and has been advocated, that if we reduce taxes then there would be more money to spend. Now, whether it be inflationary or not, aside from that, it has been said this would help the average workingman. He would have more money in his pocket with which to buy the products of industry.

Mr. BROWN. Wouldn't a man making $2,000 a year be paying under the present taxes 20 percent of his income in taxes, and that is $400 a year? Isn't he relieved under this law?

Senator MYERS. No one is relieved of taxes by this bill.

Mr. BROWN. $400 a year is an awful lot to a man earning $2,000.

Senator MYERS. No one earning $2,000 pays that much in taxes now. If he has no dependents he pays $285; and this bill would save him only $57 per year. Depending upon the number of his dependents he now pays comparatively less than $285 or nothing at all.

Mr. BROWN. That is in the low brackets?

Senator MYERS. I do not say there should not be some tax reduction, but when we are in a period of our highest national income, I have grave doubts that this is the time to reduce taxes. This would not give the average taxpayer much more purchasing power. Take Pennsylvania——

Mr. BROWN. You are just talking about the $2,500 bracket. You are forgetting the fellows below that, that are relieved of taxes.

Senator MYERS. They will be little better off.

Mr. BROWN. Twenty percent on $2,000 is an awful lot for a man making $2,000. If a man making $2,000 does not pay any tax because of his family relations this year or next year he is saving $400 of his income.

Senator MYERS. On that subject, Pennsylvania just imposed $140,000,000 of new taxation on its citizens, so after this saving of 54 cents a week on income tax, the average taxpayer in Pennsylvania might lose half that much in our State in new State taxes.

You know in the State of Pennsylvania they have increased taxes.

Mr. BROWN. Yes, sir.

Senator MYERS. And they increased taxes on cigarettes and soft drinks?

Mr. BROWN. Yes, sir.

Senator MYERS. If a fellow smokes a pack of cigarettes a day and drinks a bottle of pop, he would be giving the State almost half of his 54-cent weekly saving in income taxes under the tax bill, the average taxpayer that is.

I doubt very much if the tax bill is going to put much purchasing power in the hands of the consumer.

You also advocate repeal of the seventeenth amendment?

Mr. BROWN. Yes; I would like to see Senators elected by the legislatures.

Senator MYERS. In that case I do not know whether I would be here or not.

Mr. BROWN. I think you would, Senator.

Senator FLANDERS. I would like to make an observation. I have been very much impressed with the high caliber of men in the Senate. I did not have the opportunity of being here 25 years ago when they were elected by the legislatures. I have talked to some who knew about conditions at that time, and whether the thing is right or wrong in principle, I have had judgment given to me by several people that the caliber of the Senate is as good now as then.

Mr. BROWN. I am not reflecting on the personnel of the Senate. I am reflecting on the method of doing it.

Senator FLANDERS. Yes.

Mr. BROWN. If you will remember in our Constitutional Convention in Philadelphia that thing was argued for some time. The idea was to put Senators above direct responsibility to the people and make them represent the States, so if there were any crazy ideas going around they would not feel influenced by that thing when they were coming up for election. They were responsible to the State itself rather than the voter direct.

That is what I would like to do.

Senator FLANDERS. I have seen, however, a most intensive barrage on the part of people who elected the Senators, particularly in connection with the labor bill, and it seems to me that the record for independence in the face of that powerful drive was pretty good.

Mr. BROWN. I think it was excellent. We may not always have that type of Senator.

Senator MYERS. I wonder if they got as many letters as we get now?

You have referred to subsidies, grants, and loans. Will you be more specific?

Mr. BROWN. I think the Federal Government has no right, and I think it is poor policy for it to put through a housing bill such as my dear friend Senator Taft, is endorsing, and I have great respect for him, too; or a medical bill and things of that kind.

I think they are entirely local matters and should be left to the communities or the States.

It is only saddling more and more expense on our citizens.

Senator MYERS. What about the aid-to-education bill?

Mr. BROWN. I think that ought to be out, too.

Senator MYERS. What about flood control and rivers and harbors work?

Mr. BROWN. That is the Government's job under the Constitution.

Senator MYERS. What about flood control?

Mr. BROWN. If it is under Government control, as most navigable waters are, yes.

Senator MYERS. We only started that 10 or 11 years ago, generally. Is that a move in the right direction? Do you think we should spend hundreds of millions in flood control?

Mr. BROWN. Whatever is done it should be connected up with your responsibilities under the Constitution.

Senator MYERS. And what about social security?

Mr. BROWN. I do not believe in it conducted by the Government but by the States.

Senator MYERS. What about unemployment compensation?

Mr. BROWN. I agree with it.

Senator MYERS. Do you think it should be extended?

Mr. BROWN. No.

Senator MYERS. I notice Mr. Hoffman, who is president of the Studebaker Corp., stated the CED advocated the extension of unemployment compensation as far as practical to all workers. He says unemployment compensation "gives people the confidence in continuity of income which is so essential to the achievement of greater stability in our economy."

Do you think we should stop where we are?

Mr. BROWN. I think we should stop where we are. I believe in it, but I believe we have had about enough of that sort of thing.

Senator MYERS. What about the Federal Government's airport program wherein States and municipalities have such a large share?

Mr. BROWN. I have not discussed that or thought about it. I think we can go too far.

Senator MYERS. What about the school-lunch program?

Mr. BROWN. I think that ought to be out, that is the local government's responsibility.

Senator MYERS. I am asking about these matters because I think they are basic here. You think the Government might well be in some and you think it would be well out of others.

You spoke of the shrinkage of domestic demand. Do you object to price control?

Mr. BROWN. Yes, sir.

Senator MYERS. Price controls are all off with the exception of rent control.

I questioned a witness this morning on rent control. He frankly said that in the city of Chicago there is a decrease in the building of lower-priced homes, and there is an increase in the construction of more expensive homes.

He also indicated there was a decrease in construction of apartment houses except where the Government is participating in the low-rent housing. That is a very dark picture to me because, as you know, in Philadelphia we have a shortage of homes. I was wondering, if we should continue with rent control beyond February, if we would find ourselves still short?

Mr. BROWN. I feel if you took rent controls off, your housing problem will be solved in a couple of years.

Senator MYERS. By what?

Mr. BROWN. Your housing problem will be solved. Take off your rent controls. They will be solved in a couple of years if you do that.

Senator MYERS. What happens to the tenants in that couple of years?

Mr. BROWN. Some of them will suffer, but all of these houseowners and property owners are not heartless, as you know.

Senator MYERS. Of course not. They are human.

Mr. BROWN. They are human, but they are not heartless. A lot of them are not going to gouge other people any more than they would with rent control.

Senator MYERS. You saw what happened to rents last year when rent control was off for about a month.

I saw instances where rents were increased not 15 but 100 percent.

We know the law of supply and demand usually gages prices.

Mr. BROWN. Yes.

Senator MYERS. There is a tremendous shortage in houses and apartments. That is true?

Mr. BROWN. Yes, sir.

Senator MYERS. And prices rise, then, if the law of supply and demand governs.

Mr. BROWN. That is right.

Senator MYERS. Do you not believe that in that 2-year period you just mentioned there is going to be a lot of hardship?

Mr. BROWN. Some, but we cannot get away from some people having hardships.

Senator MYERS. You do not believe the Government has any responsibility in that field at all?

Mr. BROWN. Not the United States Government.

Senator MYERS. What about the State government?

Mr. BROWN. That is up to the local people.

Senator MYERS. Would you advocate the city of Philadelphia doing it?

Mr. BROWN. If the city wants to do it, but not the State.

Senator MYERS. What is the difference?

Mr. BROWN. A lot of difference.

Senator MYERS. Well, what is the difference?

Mr. BROWN. You have too big an overhead. The people do not get the benefit of the money you are spending. It goes into the big bureaucracy.

Senator MYERS. You are not opposed to rent control in principle?

Mr. BROWN. Yes; I am, in principle. Not during the war.

Senator MYERS. I think you said it should be in the nature of a rent-control board.

Mr. BROWN. I said the city should build houses if they want to. I do not think the National Government should.

Senator MYERS. Well, it seems to me, Mr. Brown, you recognize only two alternatives, either a socialistic controlled economy, as you call it, or a completely fluid economy, one that allows the law of supply and demand to govern regardless of the resulting inflation regardless of short supply and great demand.

Mr. BROWN. Right.

Senator MYERS. Do you think that we are going to be able to maintain this system of free economy and free enterprise?

Mr. BROWN. I have enough faith in the common sense of the great majority of our business people that they are not going to work and kill the goose that lays the golden egg.

Senator MYERS. You referred to the 1929 depression. You blame it on the stock market.

Mr. BROWN. It was the stock market. It was not the price situation, or commodities or food.

Senator MYERS. Whatever it was we had no controls then. I am not advocating new controls at the present time. I do advocate the continuation of rent control and such other controls that are necessary to safeguard our economy, but at that time, before 1929, we had no controls; Government did not touch the life of the average individual except through the postman when he delivered a letter, and yet we had a complete "bust."

In your statement on page 6, in answer to question 6:

> As about 90 percent of the cost of any manufactured article is made up of wages and taxes, the present method of wage setting will some day bring another depression.

You indicate that was not the case in 1929, that was not the cause of the last depression.

Mr. BROWN. No; but we can have a depression similar to that.

Senator MYERS. What is this percentage method of wage setting?

Mr. BROWN. What page are you referring to? Maybe I can find it quicker.

Senator MYERS. Page 6, Mr. Brown, question No. 6.

Mr. BROWN. I am referring more to taxes than wages, because I probably——

Senator MYERS (interposing). I misunderstood you.

Mr. BROWN. I want wages to be fluid and I do not want them to be set by law.

Senator MYERS. They are not today.

Mr. BROWN. They are not. You have a 40-cent minimum today and there is a bill being considered at the present time raising it in the House by a subcommittee.

Senator MYERS. I was coming to that.

Mr. BROWN. That is what I mean by wage setting. I do not believe in a minimum or maximum.

Senator MYERS. You are opposed, and you condemn the Federal Government fixing a minimum wage at 40 cents an hour?

Mr. BROWN. I do not think 40 cents means anything, but when they go to 60 or 70 or 80 cents it means a lot. It is going to set our economy in a vise.

Senator MYERS. Were you in favor of the 40-cent minimum?

Mr. BROWN. I was not at that time, but it is a different time, and 40 cents then and now is different.

Senator MYERS. You say you were not opposed to it then.

Mr. BROWN. I was.

Senator MYERS. Oh, you were?

Mr. BROWN. Yes; 60 or 65 cents——

Senator MYERS (interposing). Your 65 cents today does not have the purchasing power of 40 cents in those days.

Mr. BROWN. Probably not, but some day it is going to have a lot more, but you propose setting a higher minimum. We may have to cut our wages very severely in the future in order to do business, if we are to keep people employed.

Senator MYERS. Have you experienced, as I have, Mr. Brown, the fact that some industry is moving away from Pennsylvania to other areas of the country?

Mr. BROWN. There has been some moving away—not very much, but there are none coming in.

Senator MYERS. Why do you think industries, particularly in your field of textiles, are moving away from New England and Pennsylvania to other areas of the country?

Mr. BROWN. For several reasons. One is State taxes. Another is climate and another is the fact they feel they will get a better labor market.

Senator MYERS. Meaning at lower wages?

Mr. BROWN. A lower labor market—that is what I meant to say.

Senator MYERS. There are some chiselers, but few industries pay less than 60 or 65 cents in Pennsylvania.

Mr. BROWN. Very few.

Senator MYERS. Very few. Do you not think we in Pennsylvania may be losing industry because some other area of the country is paying much lower than 60 cents an hour?

Mr. BROWN. No; I do not think it is 60 cents or 40 cents. That has nothing to do with that. When I say high wages, I am thinking of high cost.

Senator MYERS. Wages are a large part of the cost?

Mr. BROWN. There are some areas in this country where you get more cooperation from your employees than you do in Pennsylvania and that means cheaper cost of maintenance.

Senator MYERS. I think we have had a very good record in Pennsylvania.

Mr. BROWN. We have an excellent record.

Senator MYERS. In Philadelphia we have a record of less man-hours lost than any city in the United States.

Mr. BROWN. Particularly in New York, Chicago, and Philadelphia there is a tremendous let-down in the efficiency of labor. No matter what you pay them, you are still too high in cost figures and you cannot reduce your cost out of something else.

Senator MYERS. Then you do not believe that industry has left the northeastern section of the country because of the low wage rate they might enjoy in some other section of the country.

Mr. BROWN. I do not think that is the one factor.

Senator MYERS. You think it is a contributing factor?

Mr. BROWN. I think it is a contributing factor, but not the one factor.

Senator MYERS. In your own plant?

Mr. BROWN. We are not moving away from Pennsylvania.

Senator MYERS. You indicated in your own plant the efficiency has been rather high.

Mr. BROWN. That is right.

Senator MYERS. And yet you tell us the efficiency in other segments of your own industry, or in all the industry, has not been improved.

Mr. BROWN. That is correct.

I do not have a friend, that I know of, in any industry—and I have quite a few in Philadelphia, and around the country—who is not complaining about the efficiency of his labor. When employees are working they are not producing what they did before. Many of them do not care whether they come to work or not. They take days off whenever they want to. This is a continual complaint from many of my friends.

Senator MYERS. Many of the witnesses from whom we have heard, and many of the people to whom I have talked, have indicated there has been a general improvement in the productivity and efficiency of labor.

Mr. BROWN. I hope there is. I have not heard it anywhere among my friends.

Senator MYERS. Why is it that your plant should be running 5 percent above prewar level and no other plant is in the United States?

Mr. BROWN. I do not know that no other plant is, but I hear an awful lot of complaint. We have a very good labor situation in our plant. We have confidence and work together.

Senator MYERS. What concerns me is the fact that when we sent out a questionnaire to secure a cross-section picture from industry, agriculture, and labor, each individual reporting was quite bullish as to his own business.

Mr. BROWN. Is that so?

Senator MYERS. Profits were going to be fine, but he was not quite as bullish as to his own industry or as to business in general. It was a dark picture.

Mr. BROWN. I am just the reverse of that.

Senator MYERS. In your plant efficiency is very fine and in all other plants it is bad. Is that your view?

Mr. BROWN. So I hear.

Senator MYERS. We have heard from some witnesses that efficiency and productivity have improved since 1946.

I did not mean to take so long, Mr. Brown, but I do want to ask if you are here on behalf of the Pennsylvania Association of Manufacturers.

Mr. BROWN. I am not.

Senator MYERS. In your own capacity?

Mr. BROWN. In my own capacity and for my own firm.

Senator MYERS. Thank you.

Senator FLANDERS. Mr. Huber, have you any questions?

Mr. HUBER. The Senators have asked my questions of Mr. Brown, almost.

I wanted to ask you this: If a community has a slum district that has existed over the years and it is a festering sore in the community leading to juvenile deliquency and other things associated with such conditions—poverty and so on—and private industry cannot or will not take steps to remove that condition, do you not think the Federal Government has an obligation to move in?

Mr. BROWN. No; I think it is the city's obligation or the State's.

Mr. HUBER. The city or the State?

Mr. BROWN. It should be the city first, or the State. I do not think the National Government ought to interfere in municipal affairs.

Mr. HUBER. Would you advocate the elimination of Federal insurance on bank deposits?

Mr. BROWN. The Federal Deposit Insurance Corporation?

Mr. HUBER. That is right.

Mr. BROWN. I think you could eliminate that very easily today because of the control of the Federal Reserve on these banks and the close watch they put on them.

Mr. HUBER. Do you think that was a factor—the absence of that in the days of the last depression, of the bank failure?

Mr. BROWN. I think it helped at that time. I do not see why it should be continued.

Mr. HUBER. Now on expenditures, I agree with you that every possible saving should be made in Federal, State, and local expenses.

How do you feel we can at this time reduce Government expenses when, for instance, your own State of Pennsylvania, I am informed, and I know it is true of my State of Ohio, have submitted the highest budget estimate in the history of those two States?

Mr. BROWN. I think they are doing that because of a great many things that were neglected during the war, particularly roads and bridges.

Mr. HUBER. I think testimony has been given here that material and labor costs of industry are up about 80 percent. Is that not also true in the case of the Government having to buy a truck or hiring a stenographer?

Mr. BROWN. Yes. We have too many stenographers; too many employees. I think there is a lot of duplication of effort in our National Government also.

I was looking over something here the other day. It is put out by our chamber of commerce. There are no less than 39 Federal agencies lending Government funds:

Three Government agencies engaged in deposit insurance; 34 engaged in acquisition of land; 16 in materials and construction; 28 in welfare; 14 in forestry matters; 4 in bank examining; and 65 in gathering statistics. It causes an awful lot of expense.

Senator FLANDERS. Would you solve that problem by consolidation?

Mr. BROWN. By consolidation and abolishment.

Senator FLANDERS. Which would you do?

Mr. BROWN. Both.

Mr. HUBER. How about our foreign commitments and the size of the Army and Navy, Mr. Brown?

Mr. BROWN. Well, that is something I have not gone into and I would not like to make any expression on that.

I feel that we have got to have a proper defense corps in our midst where we need them.

Although I am a member of the Society of Friends, I believe in universal military training, not to the limit that the Army is trying to get it, because I am afraid they will set up too big a military oligarchy. It should be more simple. I served in the First World War and my son served in the Second World War, although we are members of the Society of Friends.

Mr. HUBER. Inasmuch as the Society of Friends has rendered great service in the rehabilitation and relief service in Europe, your people advocate some relief in Europe.

Mr. BROWN. Absolutely. Our firm just has given to the Society of Friends some $9,000 worth of wool fabrics to send over there.

Mr. HUBER. That again is going to take a lot of money.

Mr. BROWN. Yes, but I would not advocate increasing Government contributions to the same relief. I think it ought to come from individuals.

Mr. HUBER. You do not mean the Greece-Turkey loan?

Mr. BROWN. I am not talking about that. I am talking about the United States Government contributing large sums of money to the Society of Friends Relief Service to help those people out. I think that is something for individuals and business to do.

Mr. HUBER. Now the amount of money appropriated for Veterans' Administration is second only to that for the armed forces.

I recall it is between $7,000,000,000 and $8,000,000,000. Do you see any way of making a cut there?

Mr. BROWN. Not under the laws and promises you have made so far to the veterans. You have got to play in good faith with them.

Mr. HUBER. Do you feel a grateful Nation could do any less than live up to the contracts and promises that we have made?

Mr. BROWN. We must do that.

Senator FLANDERS. Well, Mr. Brown, thank you for your answers to all of the questions that have been asked.

We congratulate you on running a business well.

Mr. BROWN. I do not know whether we are running it well or not. We are losing money this year trying to keep our prices in line.

Senator FLANDERS. Your human relations are working well anyway.

(Whereupon, at 3:35 p. m., the committee adjourned until 10 a. m. Tuesday, July 8, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

TUESDAY, JULY 8, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), O'Mahoney, Myers, and Sparkman, Representative Huber.

Also present: Staff members, Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order. Our first witness this morning is Mr. Matthew Woll, representing the American Federation of Labor. You may proceed with your statement, Mr. Woll.

STATEMENT OF MATTHEW WOLL, WASHINGTON, D. C., REPRESENTING THE AMERICAN FEDERATION OF LABOR

Mr. WOLL. Mr. Chairman, free enterprise together with all other democratic institutions now faces the challenge of totalitarian institutions with a centrally controlled economy. The American Federation of Labor in supporting the enactment of the Employment Act of 1946 had as our purpose the conservation and development of free enterprise as an expression of American democracy.

In the economic field free enterprise conforms to the basic principle of democracy, the inherent dignity of each human being which entitles him to his personal rights so that he can make decisions determining his life. From the beginning employers have benefited through free enterprise but workers as individuals rarely shared in these benefits until they organized in unions and collectively demanded their right to negotiate a contract specifying terms and conditions under which they worked.

We hold that whenever persons cannot promote their welfare and seek their happiness as individuals they have a right to form an organization to achieve these purposes. Such voluntary organizations seeking legitimate ends are free to carry on their work in such ways as they deem most effective. We have always felt that voluntary organizations were best adapted to deal with economic situations and problems which require immediate decisions based on economic and production data. Political procedures with final reference to votes is quite foreign to the precision, timeliness, and the final reference to economic experience required for economic procedures.

Our present-day economy is so interdependent in all its production relationships, decisions in production and trade so dependent upon credit and money controls, and conditioned by tax policies and the interaction of legislation and governmental administration upon our free enterprise, we obviously have to develop a way of cooperation between the private organizations governing our economy and the political agencies determining our laws and political strategy or the jurisdiction of Government will increase. That, we believe, is the road back to the loss of personal rights and to political absolutism.

Take from the employer the right to go into a business of his own choosing and into which he can put all of his creative ability to operate at profits that will keep the business going, and assure him and his family good living with opportunities to develop, then initiative and self-dependence are curbed. To be sure, the man must take a risk, but risk is the price of self-dependence.

Take from the wage earner the right to seek a job of his own choosing and to make a contract with his employer through his union, to which he delegates responsibilities for promoting his welfare, and that worker's initiative and self-reliance are curbed. This worker also takes risks in insisting on his rights and his gains, but in taking responsibility he develops as a worker and as a citizen.

In planning for economic stability with maximum production and national income, we must preserve those institutions adapted to the development of free citizens, our most important national asset. Federal planning must not degenerate into Federal dictation. We ask for coordination of existing and similar agencies to make cooperation between public and private agencies possible, with joint sharing in discussions, joint agreement on policies and procedures, and joint concern for administration.

Practically everybody agrees upon the need for balance in our economy and the need for maintaining balance in adjustment to higher level. I hope that all functional groups—farmers, workers, employers, and consumers—as they organize, can agree that the way forward is to provide key information that will measure the results of joint work, and serve as the basis for determining shares in the returns on joint work.

I hope that all can agree to include in our ethical standards for business the right to informed accounting for all who carry on a business enterprise, whether they be stockholders, executives, management, or the production force.

Honest distribution necessitates supplying to each group information on purchasing; overhead; depreciation; reserves; costs of production; salaries of executives; taxes; compensation for office staff, production staff, and stockholders; returns from sales and other sources; gross and net profits. At the present time, in the majority of business enterprise, unions have to resort to all kinds of methods to find out their employers' ability to pay. One large information company has refused to serve the American Federation of Labor with financial information of this nature. This customary information any business enterprise can secure through its banker, who wants to be be reasonably sure accounts will be paid. Why should it be refused unions who want to know if it is good business for them to ask for a wage increase?

In asking for access to information as a basis for collective bargaining, we are not asking for trade secrets or similar material that is clearly private property. We ask for information on the productive use of the investments of functional groups cooperating in an enterprise.

Developments along these lines would prevent the situation we now have in which wage earners are the only functional group that has not had its share of national income raised in proportion to others; on the contrary it has dropped in proportion to others; on the contrary it has dropped, and is a threat to stability.

The American Federation of Labor has long held that wages are payment for work and services and that they should be raised in proportion to employers' capacity to pay increases and never lowered to the point where workers cannot maintain at least prevailing standards of living. We have increased wages by reducing the work hours per week without reducing earnings. Back in 1924 we added to our wage principle the following:

> Social inequality, idustrial instability, and injustice must increase unless the workers' real wages, the purchasing power of their wages, coupled with a continuing reduction in the number of hours making up the working day are progressed in proportion to man's increasing power of production.

During the war wage rates were frozen while Government agents devised formulas and fringes to increase earnings to compensate for price inflation. Support for farm prices on a number of commodities and parity based on years when farm productivity was lower than now raised farmers' incomes and increased prices of food workers must buy.

Workers now have to spend an increased proportion of their earnings just for food. We remember the misfortunes of farmers after the First World War and realize that they want better homes and more opportunities. So do wage earners, and they constitute a large part of the consumers that must buy the products offered on the markets.

Wage rates need corrective readjustment upward and we hope that some prices can be correctively readjusted downward. We think balance in the economy also needs corrective adjustment downward of some profits.

These suggestions are based on national figures or national averages which show trends. However, such figures give no clue on how to go about changing the conditions that brought these results. Formulas to redistribute national income by taxation or borrowing for national spending is not the way to maximum production, with maximum employment at maximum rates of pay. To tackle that problem there must be action by the self-starters in each business enterprise.

We have submitted to this committee in written form detailed and specific answers to the questionnaire addressed to President William Green on June 12. I would like to comment briefly on the problems outlined in this questionnaire.

It is my understanding that this committee is charged with the duty of developing governmental policy to prevent or alleviate economic depressions. As indicated by your questionnaire it is obvious that you are deeply concerned with the present relationship between wages, prices, and profits and their effects on continuing full production and employment.

The American Federation of Labor is convinced that the feast-and-famine policy of American industry which in general has allowed prices and profits to climb to such unprecedented heights that consumer buying power is dangerously lagging will inevitably lead to economic recession unless corrective action is taken immediately.

We do not mean that in the case of each individual firm, prices, and profits are exorbitant while wages are depressed. However, when the actions of each segment of our economy are added up, the aggregate figures have startling implications. Let me illustrate:

1944 was the wartime high point in income payments to wage and salaried workers. Since that time wage rates have sharply risen, but wage rates are illusory things. Because of down grading, shortened hours, and shifts to lower-wage industries, average weekly earnings and total income payments in the form of wages and salaries dropped appreciably since that time.

Average weekly earning for factory workers were $47.50 in January 1945, the wartime peak.

The CHAIRMAN. Is that 1945 or 1946?

Mr. WOLL. It is 1945.

The CHAIRMAN. It is 1946 in your prepared statement.

Mr. WOLL. It should be 1945.

After a severe drop from this level it was not until April of this year that average weekly earnings again reached this amount.

Department of Commerce figures indicate that income payments in the form of wages and salaries dropped from $116,000,000,000 in 1944 to $105,200,000,000 in 1946—a decline of 9.3 percent.

But during this same period between 1944 and 1946, net income to proprietors jumped 25.3 percent, from 24.1 billion to 30.2 billion dollars; interest and net rent jumped 22.6 percent, from 10.6 to 13 billion; and net corporate profits jumped 21.2 percent, from 9.9 to 12 billion dollars.

These figures give some indication as to who was responsible for the increase in the consumers' price index of 23.9 percent between 1944 and May 1947.

Obviously we do not contend that business could operate without making a profit, but we do contend that many segments of industry are following a price-profit policy that is rapidly pricing their products out of the market and must inevitably lead to production cut-backs, unemployment, and eventual recession.

If business as a whole could realize such large profits in a year characterized by vexing reconversion problems and price controls during the better part of the year, either profits must boom to unprecedented heights in 1947 with a consequent bust or a new lower price policy must be instituted with more reasonable profits but a continuing strong, stable, mass market.

We may well ask ourselves what keeps employment and production at current high levels if prices are completely out of line in proportion to consumer purchasing power. There are two powerful but highly artificial and temporary forces that have served to bolster production. First, private gross capital formation has reached heights unparalleled in our history as industry builds new plants, expands facilities, and replenishes inventories.

Second, we are exporting and giving away abroad, billions in excess of our imports. In the last quarter of 1946 private gross capital formation, including net exports, was running at the rate of 37.9 billion dollars a year as contrasted with 3.6 billion in the first quarter of 1945. Such a condition cannot exist indefinitely. Once reconversion demands are met new capital formation will level off at much lower figures and a balance of trade must be established eventually. If industry is to continue operating at its present high capacity, domestic purchasing power must be built up and maintained in the hands of the American consuming public sufficient to support full production at home and an expanded, but balanced foreign trade.

The CHAIRMAN. Do you mind an interruption there, Mr. Woll?

Mr. WOLL. Not at all.

The CHAIRMAN. You include in the so-called "gross capital formation," also net exports.

Mr. WOLL. Yes.

The CHAIRMAN. Of course, most of the exports are paid for out of taxes.

Mr. WOLL. That is true.

The CHAIRMAN. We are paying four billion or so this year for exports, consequently if we did not have exports we would have four billion more purchasing power at home.

Mr. WOLL. Yes, Mr. Chairman, there is no question about that.

The CHAIRMAN. So that condition reduces the purchasing power at home by that much. We will have that much less to sell people at home.

Mr. WOLL. But whatever foreign trade we have, today is an unbalanced situation.

The CHAIRMAN. Oh, yes.

Mr. WOLL. And eventually it must be balanced. Of course, it is true that a great deal of what we are exporting today is paid for by the Government.

The CHAIRMAN. What you are saying, though, is that the present rate of production is abnormal for several reasons. One is excessive capital formation; the other excessive export trade that cannot normally be maintained at that rate.

Mr. WOLL. Yes. There will be, however, a depression in that export market eventually.

The CHAIRMAN. Perhaps not as large. Billions are pretty big figures we are dealing with here. You may proceed, Mr. Woll.

Mr. WOLL. As indicated wage and salaried workers are not even holding their own in sharing the national income, yet they have in the past constituted 75 percent of the purchasing power for consumers' goods and services.

The answer does not lie solely in higher wages, but in industry returning to the almost forgotten American tradition of mass production at lower unit costs and lower prices for an ever-increasing market.

I would like to dwell for a moment on this question of whether prices should be brought down or wages brought up as the solution to our present economic instability.

It is possible that with the release of price controls, prices would have skyrocketed even if there had been no wage increases in 1946, because of the scarcity of consumers' goods in comparison to the pent-up demand created by 4 years of production for war uses.

The first round of wage increases after VJ-day were more than wiped out by the sharp rise in consumers' prices. Between VJ-day and December 1946, prices rose 18.5 percent while gross hourly earnings in manufacturing industries rose only 11.8 percent. Thus was created a situation in which purchasing power could not be sufficient to maintain full production and employment in the long run. However, the second-round wage increases this spring have not been accompanied by price increases. These wage increases have served to take up the slack and offset the danger of a sharp collapse of economic activity. The result has been healthy for the economy as a whole.

However, it is unrealistic to assume that all prices should be maintained at their present levels and that the slack should be taken up entirely by wage increases. In the first place prices and profits in some segments of industry are not excessive, and wage movements in one part of industry are to a certain extent reflected later in a general wage movement across the board in all industries. Thus, extremely sharp upward general wage movements not only take the slack out of high price-profit industries, but squeeze the low price-profit industries so that their prices must be raised.

For that reason it is the feeling of the American Federation of Labor that moderate increases in wages in 1947 accompanied by a price-reduction policy industry by industry according to their ability to lower prices will assure continuing prosperity with high levels of production and employment. It is obvious that a wage policy that would attempt to keep wages up with the soaring price of food is not sound. Food prices must come down. Further, a wage policy that made price reductions impossible would militate against the workers' own interests by devaluing workers' insurance policies, fixed social-security benefits, and fixed pensions for their older members.

The unbalance in the present price, profit, wage relationship should be adjusted through a combination of wage increases and price decreases.

There is an aspect of present industrial practice that I feel should be considered by this committee. Labor has been the popular scapegoat for all our economic ills. Yet in many cases high prices appear to be the result of deliberate high-cost practices of industry.

For example, labor is blamed for keeping the cost of building materials high. However, lumber workers in the mills and woods are only partially organized. In the South, where organization of lumber workers is slight, the average mill rate in the fall of 1946 was only 64 cents per hour and the average rate throughout the country was less than a dollar an hour. In spite of this lumber prices are exorbitant.

Deliberate high-cost methods are largely responsible. In the Arkansas area our people reported last fall that lumber producers were cutting small and high-unit-cost timber at a time when they could sell at high prices. They are deliberately allowing the mature, large timber to stand until competitive conditions return so that they can then cut this good low-unit-cost timber to sell at lower prices.

Next, I would like to point out a few of the effects that increasing food prices may have upon labor relations and the economy generally. During a period of inflation labor is hard pressed even to obtain wage increase commensurate with the increase in consumers' prices.

Wage demands since VJ-day are not as some would believe, the nefarious inventions of unscrupulous antisocial labor leaders; they are a reflection of rank-and-file demands for the wherewithal to pay 98 cents a pound for meat and $5 apiece for shirts.

The American Federation of Labor is very much concerned about the direction of food prices in the next few months. We had hoped that optimistic forecasts of food price declines of 10 percent or more by the end of the year would prove true. Not only is food the first essential to life itself, but it constitutes more than a third of the wage-earner's budget. If food prices continue upward rank-and-file worker pressure for wage increases will be inevitable.

Because of the effect of the adverse weather conditions on crop yield for 1947, this country's extensive foreign commitments coupled with high domestic demand might conceivably force prices for foods to even new heights. Even at present food prices the farmer and grocer are depriving the producers and sellers of nonfarm commodities of a large share of the buying power in the hands of consumers. Such a diversion of purchasing power may have serious implications for the maintenance of "full" production and employment in all segments of industry.

As pointed out earlier, income to wage and salary workers did not increase between 1944 and 1946, yet food prices have jumped from an index of 136.1 in 1944 to 188.0 in April 1947. By deflating to 1944 prices and applying the food standard advocated by the Heller committee of the University of California to the actual expenditure patterns discovered by the Bureau of Labor Statistics in 1944, it is observed that all the four-person urban families in the United States with more than $2,350, or more than 80 percent of these families, were spending enough to maintain the Heller standard. However, by converting the Heller standard to present prices we see the picture exactly reversed. If four-person families continued to spend the same amount on food as in 1944, only those with incomes in excess of $5,750 would maintain the Heller standard.

More than 80 percent of the four-person families would have inadequate diets. We have observed that family incomes have not risen. When income remains constant and the price of an essential goes up, one of two things must happen. People buy less or discontinue other alternate expenditures. People must eat to live, so you may be sure it is the producers of nonagricultural commodities whose sales must suffer.

Producers and distributors of food have it within their power to show self-restraint in price policy for the good of the economy as a whole. It is to these parties that Congress must look for effective action.

As specific recommendations to achieve the purposes of the Employment Act of 1946, the American Federation of Labor suggests that this committee, together with the President's economic advisers, proceed along these lines:

Supply organized functional groups with the national data available, with industry break-downs where possible. Request these groups to convey information to their appropriate subdivisions, with requests for suggestions and plans for improvements, along with reports of what has been done.

Conferences between Government fact-finding groups, statisticians, and similar persons from industry and worker groups, to agree upon key information and record keeping. Also to recommend what data the Government should gather, what data private organizations should provide, and methods of coordination of the work.

The Government should secure the cooperation of economists now working in the field of business cycles and coordinate information by grants for additional data, and then make useful data available for guidance of business.

You will note, of course, the recommendations of the American Federation of Labor are based within our concept of maintenance of our free-enterprise system. They do not call for legislative enactment, but rather for a more centralized, fact-finding system, cooperating with industry, labor, farmers, and so on.

The CHAIRMAN. Mr. Woll, you have referred to the difficulty of getting information, and you emphasize the needs for it. I have had the impression that so far as large companies are concerned, you could get that information from statistical services or reports of the Stock Exchange. Of course, there was a dispute last year about General Motors giving advance information, which I think was perhaps a little different question, but is there difficulty today in getting reports of corporations?

Mr. WOLL. There is difficulty encountered; yes. Of course, there are instances where we have no difficulty, but in general there is an adverse attitude on the part of management to the giving out of information.

The CHAIRMAN. I think the City Bank report, which comes out every month, gives practically the profits up to date of many corporations.

Mr. WOLL. Those reports are disputed when we go into collective bargaining with the industry. They are not accepted at all as accurate.

The CHAIRMAN. Can you get their reports filed with the New York Stock Exchange? Aren't they open to inspection?

Mr. WOLL. I don't think so. Of course, I don't know what this new labor law, the Taft-Hartley law, provides in that connection, because that provides also for information as to that phase.

The CHAIRMAN. Of course, there is corporate information given to the New York Stock Exchange and the Securities and Exchange Commission, and if you want more information, we ought to have a way to get it.

Mr. WOLL. How can we determine what should be done?

The CHAIRMAN. I am speaking now as a practical matter. It seems to me that I, as an investor, say, could get that information. I don't quite see why, if I can get it, the labor unions cannot get it, so far as the past quarterly reports on what has actually happened. Of course, what is going to happen, that, I think, is conjecture.

Mr. WOLL. That is a different thing. They are not asking for conjecture; they are asking for an actual report. We find great difficulty in getting reports from some of these private fact-finding organizations that at one time did furnish us reports, upon the plea that the corporate enterprise has denied them those reports.

The CHAIRMAN. Well, I think you ought to get them, because I had the impression that anybody that wanted to get reports of what has happened in any corporation could pretty well get those reports through stockholders if not otherwise.

Senator O'MAHONEY. Will you be a little more specific, Mr. Woll, with respect to the denial of information to the American Federation of Labor? Who was it?

Mr. WOLL. Dun & Bradstreet.

Senator O'MAHONEY. At one time were you able to get this information?

Mr. WOLL. We were able to get information at one time, but that information has been denied since.

Senator O'MAHONEY. Did you pay for it?

Mr. WOLL. Yes.

Senator O'MAHONEY. And your application for information to Dun & Bradstreet was made as a client seeking to pay for the information?

Mr. WOLL. Well, I could not answer specifically on that point, but the information was available through Dun & Bradstreet but it is not available today.

Senator O'MAHONEY. Well, before we form a judgment like that, let us know whether the American Federation of Labor was willing to pay for the information or not.

Mr. WOLL. I presume that as president of the Union Labor Life Insurance Co., if I wrote for information to Dun & Bradstreet I would get it that way as a client. We believe, however, that the information ought to be made available to the Government.

The CHAIRMAN. There are a good many closely held corporations where I suppose the information is not available. I will agree to that. There are some very closely held family corporations that sell no stock and have no occasion to make reports to SEC or otherwise, and I have thought that there was a gap there on the information necessary.

Mr. WOLL. I had occasion to attend a meeting of the investors group in New York City within the past 2 months, and the tenor of that meeting, as representing investors in corporate enterprises, was that they were unable to get the necessary information, and that corporate management was even holding necessary information from stockholders.

The CHAIRMAN. But not legally, because stockholders have the right to get it. They can go to court to get it.

Mr. WOLL. I know. Of course, that is another thing, going to court to get it. But I am speaking now of this meeting held in New York City, attended by over 200 people—fully 500 people—the tenor of that whole meeting was—mind you, they represented stockholders—their complaint was against management not giving them the information that they ought to be given.

Senator O'MAHONEY. What information could be supplied by the Bureau of Labor Statistics, by the Department of Commerce, by the Federal Trade Commission, and by the Securities and Exchange Commission that is not being supplied now? My impression is that those four agencies do gather an immense amount of material; in fact, so much that it is a problem of analysis more than anything else.

Mr. WOLL. Well, our difficulty, however, is in getting the break-down on those analyses. They are generalized statements that we get, but we do not get the break-down of industries as to their profit and their prices and sales. Then we feel, too, that industry, labor, finance, and agriculture should be brought more closely in contact with each other and the Government itself.

The CHAIRMAN. Of course, under this act, there is no doubt that the present economic advisers on this committee ought to have full data and information on the corporate facts to which you refer, and we certainly will look into the question and see that we get it. You think that the public ought to get it?

Mr. WOLL. I certainly do. We feel that then you have the power of public opinion upon industry and not legislative dictum.

Senator O'MAHONEY. Mr. Woll, I notice in one of your statements at the beginning of your testimony—I will read from page 2:

> Take from the employer the right to go into a business of his own choosing, and into which he can put all of his creative ability to operate at profits that will keep the business going and assure him and his family good living with opportunities to develop—then initiative and self-dependence are curbed.

What are the obstacles that you see now to an employer going into business who desires to?

Mr. WOLL. That statement is not intended to state that there are obstacles to anybody entering into business today. As a matter of fact, we want to affirm the right that exists, but in affirming the right on the part of management or capital, we want to affirm alike the right on the part of the worker. That paragraph is not at all to be interpreted that there are obstacles, excepting, of course, the usual obstacles that a man has in getting the necessary finances to go into business.

The CHAIRMAN. Mr. Woll, what is your view on the proposal for an increased minimum wage as the background of the general economy? What is your thought on that?

Mr. WOLL. I think the minimum wage today is too low. I think it ought to be increased, because I think the cost of living, the cost of everything, has gone up considerably. What was a fair minimum standard several years ago is today no longer fair but is an unfair minimum standard, and as long as we have adopted the policy of a minimum standard it ought to conform to developments that have taken place in our economic life since that time.

The CHAIRMAN. What is your view as to how far we can go in increasing the minimum wage? How far can we push wages up without creating unemployment? I think we can do it some, but I am wondering how far we might go.

Mr. WOLL. Well, certainly, the present minimum wage standard is extremely low, and it is difficult to see how anybody could possibly live under such a standard.

The CHAIRMAN. Well, general wages, average wages, outside of the minimum wage, have increased, we will say, 50 percent at any rate—in fact, probably more—would you say the minimum wage should be raised more or less in the same proportion as the wages of other workers?

Mr. WOLL. I did not come prepared to argue the question of the minimum wage, because I understand that is before another committee.

The CHAIRMAN. I have a question here that Mr. Patman sent word that he wanted someone to ask, so I will ask it for him:

> Ask this question of Mr. Woll: "Are you informed of the rule of the New York and San Francisco unions that only sons of a photoengraver are eligible to become apprentices in the trade?"

Mr. WOLL. What was that question, Senator?

The CHAIRMAN. Are you informed of the rule of the New York and San Francisco unions that only sons of a photoengraver are eligible to become apprentices in the trade?

Mr. WOLL. In connection with the rule adopted by our New York local union, we had the ratio of 1 to 7 apprentices. Because of the war situation there was created a considerable shortage of manpower in the industry. Our local union constantly liberalized its apprentice ratio, so that today the ratio, I think, is about 1 to 4 instead of 1 to 7—practically doubled it. The last change made was the adoption of a rule that the apprentices that could then come in should be confined first to the sons of those in the industry, to give them the first chance, but that was only for those additional apprentices to come in for the enlarged ratio. There is no such permanent rule. That was just for the immediate situation. And, of course, bear in mind too that even under that rule we have what we call "floor boys," that are waiting for their time to come in as apprentices, and all those floor boys have prior consideration after being indentured to the trade.

I dare say that the ratio in our industry as a whole, prior to the war, was something like 1 apprentice to 10 journeymen; today, because we have liberalized our rules, the ratio is about 1 to 6 throughout the industry. In other words, our industry, contrary to the implications that we are placing restriction on apprentices, has gone the other way round, because we realized that if we starved industry, ultimately we would end our opportunity for employment.

Does that answer your question, Senator?

The CHAIRMAN. It is not my question. I only asked it for Mr. Patman.

Mr. WOLL. But for San Francisco I cannot answer, because I don't know. I don't think they follow any such rule, because it is not in keeping with our international laws.

Senator O'MAHONEY. Can you say as much for the general run of labor unions?

Mr. WOLL. I would rather have them speak for themselves on that question. I think some organizations have been equally liberal, and I imagine others have not.

Senator O'MAHONEY. There has been testimony before this committee in succeeding sessions to the effect that the average age in the building trades in Chicago was something over 50. My recollection now is the figure given was about 54. I recall that when the Public Lands Committee was investigating the coal-mine disaster at Centralia, testimony was presented that the average age of the coal miners in that mine was 56 or 57, and the average over-all age in that mining country was about 51. Do you know whether or not that is reasonably true of other trades?

Mr. WOLL. I could not answer that definitely, but judging from my own trade, the average age has also increased in recent years in that connection—that is, until we brought in the new blood which has reduced, of course, the average age of our membership. But you must bear in mind that the war came on and took all the young fellows out of the industry, and naturally brought the average age higher than it had been before, by reason of that. A number of those men have never returned. Others have returned but they cannot follow the vocation they followed previously, and some are not inclined to follow that vocation. As a matter of fact, I think today the tendency is for every father to have his son not follow a trade, but to enter the professions, which I think is an extremely dangerous situation developing.

All of these factors, I think, account for it, but I imagine the implication is there that you feel some rule of the union is responsible for it. I cannot see that at all.

Senator O'MAHONEY. That is precisely the point I wanted to bring out. Your testimony is that the union rules are not responsible for the raising of the average age?

Mr. WOLL. Take it again in my own organization. We used to have an apprentice indentured after he had reached the age of 16; today we have no apprentice applicants coming in the first year at the age of 16. He will be about 20 or 22, because school attendance and other factors enter into that phase, but not the union rules.

Senator O'MAHONEY. It raises a question whether or not we are to depend for workers upon new emigrants into the United States, or whether we are going to have to raise the standards of employment and wages and work, so as to make the trades more attractive.

Mr. WOLL. I think, of course, we ought to make the trades more attractive. I think that is one weakness in our whole economy. But in the matter of training you will find the youth entering industry today is better qualified and equipped mentally to grasp the trade or calling than the boy was in former times.

Again reverting to my own industry, we find the boys coming into the trade today are better and more proficient than the boy in other days, and so it is with management. The boys receive more intensive training and a number of trades require the boy to go to school.

I do not think we are lacking in that regard, but I do think we are lacking in the respect that our trades are not more attractive.

Senator O'MAHONEY. You refer in your paper, I think indirectly, to the need for expanding production?

Mr. WOLL. Yes, sir.

Senator O'MAHONEY. Do you care to make any comment from the point of view of organized labor upon the frequent assertion that organized labor keeps the rate of production down?

Mr. WOLL. I think that is entirely fallacious. You may find some examples, I agree, to give validity to that report, but I say, in general, that is not true.

You hear a great deal about bricklayers. I had occasion to ask Mr. Gray, the then secretary and treasurer of the bricklayers' organization. He advised, yes; the bricklayers are not laying as many bricks as previous to the war, but that is not due to any trade-union restrictions, really, or rule or regulation.

First of all, you must consider the kind of brick being laid. Then again the question arises, is the brick to be laid for supporting steel, or facing wall? Then again the question comes up whether there is a straight wall or windows or doors, all of which affects the number of bricks to be laid in a given situation.

Then he said a contractor in Denver, Colo., who had been furnished 150 bricklayers a little later came and requested 150 more bricklayers. He wondered why. He sent a man to investigate. This man was doing Government work. He did not care how many men he worked. He wanted a large manpower supply. The 150 men were not kept busy and when the other men were engaged they took it easy. They have not yet come out of that situation fully and that, I think, is true of many other industries, but there is no union rule or regulation on the point.

Senator O'MAHONEY. May I ask you another question, Mr. Woll, about the functions and the program of the Workers Educational Bureau of which you are the president?

Mr. WOLL. Yes, sir.

Senator O'MAHONEY. What are its purposes, and what are they seeking to do?

Mr. WOLL. To organize workers' classes and enlighten them. First as to those who have not received any grammar school education, to teach them history, economics, to teach them the fundamentals of collective bargaining, and so on.

That is the purpose of the Workers Educational Bureau. Incidentally, to maintain our free-enterprise system.

Senator O'MAHONEY. How many enrollees are there in that bureau?

Mr. WOLL. There are no particular number of enrollees in the bureau because these classes are enrolled by localities and communities, and the bureau itself does not undertake to enroll anyone.

Senator O'MAHONEY. What I was driving at, have you any idea how many workers are taking advantage of the educational opportunity?

Mr. WOLL. Quite many and different classes. We urge them to take advantage of the technical schools, and they are taking full advantage of that. Then, too, we have the voluntary classes.

The International Ladies' Garment Workers carry on extensive classes in workers' education.

I have never attempted to ascertain approximately the number of enrollees in all these classes.

Senator O'MAHONEY. It seems to be a very laudable enterprise and it could be utilized to the great advantage of the country as a whole.

Mr. WOLL. Of course, we are attempting to do the best we can under the limited resources that we have at our command for the purpose.

The CHAIRMAN. Any other questions?

Mr. HUBER. Going back to the question of an inccreased minimum wage, do any members of the American Federation of Labor receive less than 65 cents an hour?

Mr. WOLL. You mean do we have any collective-bargaining agreements that call for less than that?

Mr. HUBER. That is right.

Mr. WOLL. I would not be in position to answer that because I do not know all scales involved.

Mr. HUBER. Would you think most of them receive more than that?

Mr. WOLL. I cannot conceive of their receiving less than the minimum wage standard.

The CHAIRMAN. The protests that I have received come very largely from the laundry industry.

Mr. WOLL. Yes, sir.

The CHAIRMAN. Is that industry organized?

Mr. WOLL. It is partially organized but not thoroughly organized.

I presume in the laundry industry there are a good many. Do you know of any?

Mr. SLAUGHTER (research staff, American Federation of Labor). It depends on the part of the country in which they are located.

In the South, in Atlanta, Ga., a number of years ago they had an extensive strike and managed to bring the price up 100 percent, from 18 cents an hour to 36 cents. That is true in southern laundries.

Mr. HUBER. Can you tell anything about Ohio?

Mr. SLAUGHTER. I think the difference would be somewhat greater.

Mr. HUBER. You say in your paper prices can be decreased.

I would like to know what your comment would be in the case of increasing the coal miners' wages. What effect would that have on the price of steel and steel products?

Mr. WOLL. You mean the effect of the recent increase in miners' wages?

Mr. HUBER. Yes, sir.

Mr. WOLL. I imagine it will increase the price of coal. I do not know why it should increase the price of steel.

The CHAIRMAN. I am told it would increase the cost 70 cents a ton for coal and the cost of steel about $1.10, or something of that sort.

That does not say it cannot be absorbed. It at least provides for a decrease and competition might bring that about in time.

Mr. WOLL. Well, as I said, I presume there will be an increase in the price of coal, but I do not see that there should be any in steel, and I do not say that coal should absorb that.

Labor is the great item of expense. Still, it is not so high there.

The CHAIRMAN. Thank you, Mr. Woll.

Mr. GOSS. I see that you have a statement of some 45 minutes and Mr. Sanders has one of about the same length.

Do you intend to cover your whole statement or summarize it?

STATEMENT OF ALBERT S. GOSS, MASTER, THE NATIONAL GRANGE, WASHINGTON, D. C.

Mr. GOSS. I suggest we might save time if we were permitted to go through with it.

We have had to ask Mr. Sanders to cover one feature of it.

The CHAIRMAN. Very well.

Mr. GOSS. We believe Congress acted wisely in creating the Council of Economic Advisers and the joint committee to study their report, for our economy is so complex that it must be viewed broadly. Piecemeal legislation designed to cure some particular inequity is likely to create some new inequity unless we build a well-coordinated economic structure under which each segment of our economy can freely function to the best advantage with equitable compensation for the service rendered. Even if such an ideal situation were actually attained, constantly changing economic forces would soon throw it out of balance, so we need continual study in as complex an economy as we have developed to maintain it on a sound or even a safe basis.

The war has left us a greatly changed world. Shifts in production, shifts in population, shifts in domestic and foreign trade, new methods, and changed demands all contribute to outmoding practices and laws designed to meet depressions or other conditions of the past.

Foreseeing great change, 5 years ago the National Grange sought to develop some basic principles that would serve as a guide to meeting the vastly changed conditions we might expect in the future, and set up three guideposts by which we measure any proposals for action to determine whether or not they are sound.

These guideposts are:

(1) All prosperity springs from the production of wealth, or anything which retards the production of wealth is unsound.

(2) The compensation of each should be based on what he contributes to the general welfare.

(3) The prime purpose of government is to protect its citizens from aggression—both physical and economic.

Guidepost No. 3 is very general, and no doubt needs clarification covering such sound public activities as education, support of roads, and similar activities in which government can render essential services to better advantage than is possible through individual effort, but for our present discussion the simpler form will suffice.

Following this simple logic we arrive at two conclusions as to basic objectives:

First, we favor an economy of abundance. Every step of progress civilization has made has been marked by a greater consumption of goods and services. We have learned the technical processes of producing an abundance in almost every field. We have not yet developed a practical and equitable way of assuring that the abundance which we create is maintained or distributed where needed, when needed, and in such a way that the producers may receive adequate compensation to keep our whole economy in balance.

Second, we want as little Government interferences as possible, largely limited to preventing economic pressures or aggression which might make it impossible to obtain the objectives just cited.

Senator O'MAHONEY. Before you proceed, are we to understand that you believe the Government should not adopt any positive program about regulated production?

Mr. GOSS. No; we do not mean that, Senator. We mean that the Government should not take part in action agencies, or any action where that can be done outside the Government with equal efficiency.

Senator O'MAHONEY. In other words, you think the Government should not invade the fields where the citizens can operate to better advantage than Government?

Mr. GOSS. Where we can and will; yes.

Senator O'MAHONEY. But you feel there are fields in which Government activity to promote possibilities of production must step?

Mr. GOSS. I think that is fairly well covered as we continue on through, Senator.

Senator O'MAHONEY. Very well.

Mr. GOSS. Before proceeding further with the discussion we call attention to two common errors which should be avoided.

First, in most statistical studies designed to measure equities between groups, prewar comparisons are made and those are usually based upon the last year of comparative peace—1939. From the standpoint of agriculture this is grossly inequitable because farm prices were badly out of equitable relationship with other prices in 1939 and were so very low that agriculture could not maintain itself. The parity ratio stood at 77 percent in 1939. A few comparisons will illustrate what we mean.

Senator O'MAHONEY. I want to interject there another comparison. It is quite common in many fields to refer to 1939 as sort of a base year.

We should remember, however, that the receipts of the Federal Government back in 1939 were scarcely as much as the interest on the national debt in the last fiscal year, showing that there has been a tremendous change.

Mr. GOSS. That is a very interesting point, and what we object to, as I am trying to bring out, is that they compare agricultural prices to 1939 when these prices were so very low that it took a good big boost to get us up even to the cost of production.

In 1939 prices received by farmers were 5 percent below what they had received before World War I in 1909–14. On the other hand, prices paid by farmers for commodities used in production and family maintenance were 21 percent above 1909–14. With interest and taxes included in items bought, prices paid were 24 percent above 1909–14. These figures show that farmers were receiving only 77 percent of parity in 1939.

Contrast this with other industries which had largely recovered from the depression by then, and it is easy to see why the comparison is grossly unfair to agriculture.

Senator O'MAHONEY. What is the source of those figures?

Mr. GOSS. The Bureau of Agricultural Economics and the Department of Labor.

While farm prices had gone down 5 percent, average hourly earnings in manufacturing industries had gone up from 21.2 cents to 66.3 cents, or over 200 percent increase.

Dividends of manufacturing corporations had increased 235 percent over the same period.

The annual per capita income for farmers was $150, excluding $23 in Government payments, as compared with $663 for people not on farms.

Had almost any other period been used as a base the figures would show that most other items have advanced as much or more than food. For example, as of January 1 this year, using 1926–28 as a base, we find the following increases:

	Percent
Food	18.98
Clothing	35.68
Household furnishings	38.09
Miscellaneous items	49.68
Hourly wages	95.7

The discrepancy is even more startling when the increase in income is measured in dollars.

The unfairness of the comparisons in the report of the Council of Economic Advisers was called to the attention of the Council, which readily admitted the prejudice created by using such figures, and promised to study the posssibility either of developing some other basis of comparison or the use of some equalizing factor which would prevent such distortion.

Second, the error generally prevails of feeling that we can secure and maintain equitable relationships by law. This is only partially true. About the most the law can do is to afford protection against unfair practices or aggression of various kinds.

In a free economy, the desires of millions of men and women freely exercised in their daily pursuits, determine what our economic relationships will be. We lay emphasis on the words "free economy" and "freely exercised," for in a totalitarian state, or in a state where monopoly exists, in industry, labor, agriculture, transportation, or finance, people cannot satisfy their desires freely.

In a truly free economy if conditions in one industry or one occupation becomes less attractive than another, people will shift to the more attractive opportunity, and conditions will keep in balance, although in agriculture the shift constantly lags, and may bring real distress before it is accomplished, due largely to heavy investments which make shifts difficult.

It is not necessary to give any group any special advantage; in fact, it is futile unless that advantage is maintained by continually increasing props of one kind and another leading directly to a controlled economy. Usually all that is necessary is to prevent aggression or unfair advantages which might be maintained by more or less monopolistic controls. If freedom from aggression, freedom to exercise choice, and freedom to develop and use our own talents in our own way can be asured, we need have little worry about the result.

With this background, we will turn to the questions as they appear in the committee questionnaire and will attempt to answer them briefly, then comment on the whole economic problem more fully, for we find that the questions do not lead to a full discussion of the problem as we see it.

Part 1, question 1:

Do you observe any indication that prices are at a level which endangers the market, either because buyers do not have the means to maintain their former volume of buying at this price level, or because buyers may deliberately withdraw from the market? (If you would answer differently with respect to industrial raw materials, or manufactured goods, or food, please indicate.)

Answer: We believe the market is spotted, with some prices too high and others too low. On the whole we think our prices are too high because we believe an economy of abundance will depend upon freedom to trade with the rest of the world, and we believe that our general price level is getting out of proportion with prices which will prevail in the rest of the world as conditions get back to normal. That portion of the Nation's purchasing power represented by savings will probably resist purchasing at levels substantially higher than those prevailing when the savings were accumulated.

Part 1, question 2:

Do you regard the present level of wages and salaries in general as too high, too low, or in proper proportion to other factors in the economy?

Answer: Our answer to question 1 applies equally to question 2.

Part 1, question 3:

What facts do you consider most important in judging the outlook for prices and business activity in the country as a whole?

Answer: Among the factors most important to consider are: (*a*) Equitable or parity relationships between prices of raw materials, labor, salaries, and income from industrial and service operations; (*b*) foreign policy, particularly with relation to credits extended for purchase of American products; (*c*) level of employment; (*d*) fiscal policy particularly as relates to balancing the budget and other inflationary controls; (*e*) individual savings; (*f*) volume of credit available; (*g*) industrial earnings; (*h*) adequate transportation facilities including changing regulations to step up use of freight cars.

One phase of our fiscal policy which should be carefully scrutinized is the tendency to increase installment buying. Installment purchase obligations are sound so long as they increase the purchaser's earning position or living conditions, and are within his capacity to pay without curtailment of other necessary expenditures. Installment contracts which ignore these sound principles cause heavy loss to the purchaser with proportionate loss to the total economy. Means should be developed for proper analysis and control of unsound installment contracts through both voluntary controls by sellers and bank-credit controls.

Part 1, question 4:

What ratio of profits to investment do you consider adequate to provide industry with:

(*a*) A reasonable rate of return on invested capital?

(*b*) Adequate funds for new investment from earned surplus for productive facilities and working capital?

Answer: A reasonable rate of return on invested capital or on funds for new investment would depend entirely upon the extent of risk involved. Many factors enter into this risk, prominently among them being markets and labor relations. In paragraphs 51 to 58 we shall discuss a program under which losses from these two factors could be substantially reduced.

Part 1, question 5:

If a producer's profit margins are too high, would it be more favorable to stable high employment to adjust by lowering prices or by raising wages?

Answer: Ordinarily excessive profit margins should be reduced to maintain stable high employment. We believe such a condition prevails at the present time. This will be discussed further in paragraphs 51 to 58.

Senator O'MAHONEY. You mean by that it is your opinion profits are too high?

Mr. GOSS. Yes; in many lines, not all lines, but in many instances they are.

Senator O'MAHONEY. Are you referring only to industrial profits? Do you include service industries and profits of agriculture?

Mr. GOSS. I would say largely the industrial profits.

Senator MYERS. Would you include any food processes in that answer?

Mr. GOSS. I think there may be some in food processes; yes. I do not know that I would be able to name them, Senator.

Senator O'MAHONEY. Have you any comment to make on the proportion of the consumer's dollar which goes to the farmer now?

Mr. GOSS. When prices are as high as they are now, the percentage which goes for transporting the product from the farm to the consumer out to go down. That varies so greatly that I have not made an analysis of it such that I believe I would want to comment on it, Senator.

Senator O'MAHONEY. Very well.

Mr. GOSS. Except to say that we have always felt the margin of profit between the farmer and the consumer is too large. There are many ways in which it could be reduced with reasonable profit, we believe, for the handler.

You tempt me to mention an item or two, such as milk, where we have such a tremendous production expense and receive less for handling, raising the milk, and putting it into the bottle than the actual marketing of the milk from the dealer to the consumer.

Part 1, question 6:

Do you believe that wage agreements, following the pattern of those recently made are desirable for industry generally, either on account of their effect on consumer purchasing power, or because they maintain industrial peace at a price not too high?

Answer: We believe that some of the recent wage adjustments are out of proportion to the general wage level; that they represent adjustments to the highest-paid workers rather than those most needing adjustment; that they have been inspired in considerable degree by a desire to share in excessive profits which should have been reflected in lower prices; and that they bear evidence of monopolistic control rather than equitable bargaining based upon a well-balanced total economy.

Part 1, question 7:

If such wage agreements are not generally made, do you anticipate serious work stoppages in 1947? Can you suggest other ways to avoid or minimize them?

Answer: We anticipate serious work stoppages in 1947 unless both labor and industry can be brought to the realization that their best interests lie in a well-balanced total economy. The suggestion we have to make will be made later in paragraphs 51 to 58.

Part 1, question 8:

If a sharp curtailment of food consumption in this country should become necessary, because of a decline in crop yield or an increase in imperative demands for relief abroad, should the readjustment be effected by letting prices go high enough to curtail effective demand, by establishment of food rationing, or in some other way?

Answer: If we have a decided food shortage such that food cannot be bought at prices which will promote reasonably maximum production without being exorbitant, rationing may have to be reinstituted. We believe, however, that if the Government, in connection with its purchases for its military forces and world needs, would pursue a sound policy in selecting foods in greatest abundance and avoiding excessive use of foods in short supply, rationing could probably be avoided. Certainly every effort should be made to avoid it, for we could expect either tremendous evasion, or an enormously costly administrative expenditure requiring many thousand enforcement officers who might better be used in production. Price ceilings should be resorted to only as a last resort to prevent profiteering. Price ceilings without rationing are highly inflationary in character. We refer the committee to the Grange policy on control of inflation adopted in November 1941 which will appear as appendix No. 1.

Senator O'MAHONEY. Now all of those answers depend upon the qualifying pharse with which you began "if we have a decided food shortage."

Now what is your view as to whether or not there is in prospect such a "decided food shortage"?

Mr. Goss. America can raise ample food for our own needs and a tremendous amount for export. Whether we have a shortage or not depends on how much we export. That will depend upon what our policy will be in our foreign relations. The world needs more food than we have. I spent a few days in Germany last month and was appalled at the need for food. We cannot supply that in total, Senator.

I think if the Government follows the policy of using those foods which are largely in excess supply and avoiding those foods which tend toward scarcity, that we can supply enough food so that there will not be real suffering in the rest of the world and still have enough so that we can avoid rationing.

It may be necessary to call for voluntary help, meatless days, and "spare the wheat," or something of that sort, but I do not think we are approaching the time when we need rationing.

Senator O'Mahoney. Production of food in the United States is at a very high level, is it not?

Mr. Goss. The highest level we have ever had.

The one sore spot is corn. We do not know what the corn crop will be because that is one of our major crops——

Senator O'Mahoney (interposing). The cause of that shortage is the flood?

Mr. Goss. Floods, weather.

Senator O'Mahoney. But that does not depend upon the Government's policy?

Mr. Goss. No; but the Government's policy in the distribution of wheat will be modified to some extent, no doubt, by the size of our corn crop.

Senator O'Mahoney. No doubt about it.

What I am driving at, the present outlook with respect to the food supply in the United States is good.

Mr. Goss. It is very good.

Senator O'Mahoney. Is there anything except weather that you see ahead which is likely to reduce production of agricultural products?

Mr. Goss. No; I do not see anything else ahead, Senator.

The farmers, of course, have had some reservations about extending their capital investment, knowing that when the war was over they might have surpluses in a number of lines, but I think they have expanded just about up to their ability in spite of those fears. They felt it was their patriotic duty, and Congress has given them assurance through the Steagall amendment that they will have a certain amount of protection, and I feel, if the time comes, Congress will take proper steps to see that the protection is kept effective.

Senator O'Mahoney. Do you agree that the per capita consumption of food in the United States is now generally higher than it ever has been?

Mr. Goss. There is no question about that.

Senator O'Mahoney. What is the reason for that?

Mr. Goss. I think people have got more money and are filling their desires.

Senator O'Mahoney. In other words, we have more employment than we ever had before?

Mr. Goss. That is correct.

Senator O'MAHONEY. And so, consequently, it would follow, would it not, that full employment and well-paid labor constitutes the best market for the farm?

Mr. GOSS. That is correct, Senator; but I hope there is going to be time for Dr. Sanders to give his testimony in full, because he has made an extensive study of that problem, and I think you will find his testimony most interesting and convincing.

Senator O'MAHONEY. Now, let me ask another question and I will let you go back to your paper.

If the Government should follow a policy indicated by the Marshall plan of trying to stimulate the war-ravaged countries to increase production, what would be the effect of that upon our production?

Mr. GOSS. The ravaged countries can increase their production very materially and still take all the food we have to spare and can afford to send them. Personally, I came back from my three trips to Europe within a year completely convinced that we must stimulate production of food and industrial production, and get those countries back on their feet if we are to be assured of peace.

Senator O'MAHONEY. Do you make any recommendations with respect to that later in your paper?

Mr. GOSS. Yes; I believe there are some.

Senator O'MAHONEY. All right.

Mr. GOSS. I would like to call attention to the appendix on page 34 of this little pamphlet.

Senator O'MAHONEY. Have you copies of that?

Mr. GOSS. Yes; and I hope the committee reads it.

(The appendix referred to is as follows:)

APPENDIX NO. 1—REPORT ON INFLATION ADOPTED BY THE NATIONAL GRANGE NOVEMBER 13, 1941

The right to store up the results of skill and labor in the form of property is fundamental to the preservation of the American way of life. One of the greatest dangers this country faces is from inflation, which, unless controlled, may destroy the foundations of our democracy. There are two methods of control. First is the use of economic devices designed to lessen the pressure of surplus income on inadequate supplies. Second is the arbitrary control of prices, labor, rents, commissions, etc.

Among the economic devices are:

1. Encouraging savings and building individual reserves, to meet the shock of postwar adjustments.
2. Increase in income taxation, coupled with efficient and economical administration of government, which will serve to retard inflation and prevent the passing of an unnecessary debt burden to future generations.
3. Encouraging investment (by individuals in preference to banks) in government securities which finance the borrowing from which employment and excess income are derived.
4. Maximum production of all consumer goods, which can be produced without hampering production of needed defense materials.
5. Restricting credit to productive purposes and sound investments in order to discourage speculation.
6. Voluntary reduction of selling prices, when increased volume results in lower costs and increased profits. This will promote the benefits of a cycle of plenty by reducing living costs, reversing the trend of the evils leading to inflation, and laying a firm foundation for postwar adjustment.

If these measures do not serve to prevent prices advancing unreasonably, it may be necessary to resort to measures of arbitrary price control. In that event certain definite principles should be borne in mind:

First, some advance in price is a natural accompaniment of the great destruction of wealth as a result of war. This advance is not inflation. It is an unavoidable cost which all must bear. Any adjustments of prices, wages, rents, or commissions which relieve any group of bearing its share of the cost will result in increasing the burden of others, and are unsound.

Second, any effort to increase profits because of the increased demand is inflationary. If arbitrary control is necessary, it should be limited to profiteering.

Third, if control is necessary, further than well-defined cases of profiteering all should be subject to control, so that equity among all groups will be assured. The administration of any price-control legislation should be vested in a board with a chairman appointed by the President and any authority so granted should be terminated as of a specified date.

Fourth, Congress should not allow the authority to fix prices to be vested in any agency which is not constantly subject to congressional control. Congress should require prompt reports on all actions of any price-control body and should return to itself (1) the right to review and revoke by joint resolution any order issued by such agency, and (2) the right to revoke by joint resolution any powers thus granted to such agency. The unlimited right to control prices is tantamount to the right to legislate.

Fifth, Congress should establish standards for the guidance of any price-control agency and provide a court of appeals. The purpose should be to attain equitable income and equitable relationships between groups. No group should receive more or less than an equitable and just share of the national income. In the consideration of farm prices, farmers should not ask more nor agree to accept less than actual parity, but it is essential that a just rule be provided for determining parity. Some flexibility in administration will be necessary to assure actual parity.

Three facts bearing upon agriculture's place in this problem should be kept in mind.

First, Not once in 20 years has agriculture's income reached parity. On the contrary, the farmers' proportionate share of the national income has declined alarmingly, and substantial increases in prices are necessary to bring farm purchasing power back to normal.

Second, With farmers receiving substantially less than half of the consumer's dollar, there is no justification for passing on to the consumer any increase further than the increase received by the farmer, unless justified by some other valid cause.

Third, Agriculture, with its 6½ million individual producing units, is the least likely of all industries to exact monopolistic prices from consumers.

If farmers can get equitable prices for their products, they can and will produce in abundance. If they cannot get adequate prices, exhortation to raise food to win the war and write the peace will not suffice, not because of lack of will to serve, but because of financial inability to carry on. The Grange, therefore—

1. Favors application of economic devices as the best means for holding down inflationary tendencies.
2. Opposes arbitrary price fixing unless necessary.
3. If arbitrary price fixing becomes necessary, demands—

(*a*) That all groups be included to assure equity,
(*b*) That the activities be devoted to preventing profiteering,
(*c*) That standards be provided, as far as possible, to assure equity for all,
(*d*) That Congress retain control.

The Grange will oppose arbitrary price fixing if these principles are not complied with.

The CHAIRMAN. You may proceed.

Mr. GOSS. Had the policies therein advocated been followed, we would have had greater abundance and would have avoided much of our inflationary trends.

Part 2, question 1:

Do you believe that the present level of prices of agricultural staples is too high, too low, or about right, to induce production of an adequate supply, but not an oversupply of farm products? (If you prefer, limit answer to specific products.)

Answer: The prices of some commodities are too high and some too low. Some are supported at unreasonably high levels by law and some have inadequate protection. There is a great need for a sound modernized parity formula which would help correct such maladjustments.

Part 2, question 2:

What phases of the current agricultural situation, if any, do you consider unfavorable to the maintenance of a high level of productive activity (either in agriculture or in industry)? What should be done about them?

Answer: Among many factors, we believe the following should be mentioned as having a distinct bearing upon maintaining agricultural production:

(*a*) Foreign policy: There is great uncertainty as to what America will do toward furnishing food for needy nations.

(*b*) Uncertainty as to Government supports: We need a definite policy with relation to Government supports and we particularly need a new sound modernized parity formula.

Senator MYERS. Do you believe the Government should extend its price-support program beyond next year?

Mr. GOSS. Senator, we have a very definite program with relation to price supports which we call a stop loss floor program. That is a support which would prevent the complete collapse of the market, but not so high as to stimulate surplus production. That is a matter of testimony of several pages before the Agricultural Committee last April, and we would be very glad to furnish a copy. It would take quite a little time to go into detail.

Senator MYERS. On stimulation of overproduction, I surmise there is one item on which overproduction has been stimulated by the program.

Mr. GOSS. You refer to potatoes?

Senator MYERS. Yes.

Mr. GOSS. I think potatoes is an outstanding item.

(*c*) Labor unrest: Agriculture needs a dependable supply of labor which will not fail it through strikes or desertion at critical production periods. It needs a price level which will enable farmers to pay better wages and provide working conditions truly competitive with those of industry.

(*d*) Transportation shortages: We need adequate transportation facilities to move our crops where needed. Low freight-car-rental values, faster movement of freight trains, and more stringent loading and unloading regulations would temporarily help, but basically we need more cars.

(*e*) Fertilizer shortage could be relieved by more economic use of Government-owned plants until normal expansion of manufacturing facilities catches up with demand.

(*f*) Above all agriculture needs a nonagricultural labor policy that will avoid getting industry and labor into a vicious cycle of raises of first wages and then of prices, a policy that will promote maximum output and result in the reduced prices that come from adequate supplies.

Part 2, question 3:

If farm prices were to fall by, say, 20 percent, how much effect would you anticipate: (*a*) On farmers' purchases of goods for consumption; (*b*) on their purchases of equipment and investment in farm improvement; (*c*) on the amount they would spend for hiring labor?

Answer:

We do not believe the question can be answered. Some prices are too high and 20 percent reduction would have little bearing upon the amount of labor to be hired or the amount of goods which could be purchased. Other prices are too low and a 20-percent reduction would mean bankruptcy for the producers. We fear the question was framed under the assumption that the price level on all farm commodities is now in equitable balance, which is not the case.

Basically, we believe we can achieve stable widespread prosperity only through an economy of abundance. This implies the necessity of developing a practical system of distribution which will enable such an economy to function.

The problem both as to agriculture, and as to industry and labor, naturally divides itself into two phases: What can we do for ourselves, and what will require Government action? We believe that it is best to do as much as we can for ourselves, even though Government action may be necessary to provide aid and possibly incentives. Let us first discuss agriculture.

Six million farmers, faced with many uncontrollable conditions, cannot produce exactly the right amount of food and fiber the Nation needs. If consumers are to be assured of an adequate supply at all times, there will inevitably be many surpluses. Under our existing marketing structure, these surpluses are used to drive down the prices and thus to penalize the producers of the abundance the Nation needs. There are three major schools of thought as to the remedy.

The first would curtail production, so there would be no surplus to drive the price down. This is contrary to our Guide Post No. 1, for we cannot have prosperity without ample production of wealth and if the producer of every commodity would follow such a course, we would soon be well on the road to an economy of scarcity with high prices and low consumption.

The second school would rely solely on the law of supply and demand and when the supply is in surplus, would let the price go down in order to discourage further production. This is the policy which led to economic collapse in the twenties and early thirties. It may work in theory, but in practice too many farmers are forced into bankruptcy through such cruel and dilatory means.

The third believes that the market for staple farm products should be supported at a price high enough to prevent the destruction of the producer, but not so high as to prove incentive in character and encourage excessive production. It recognizes that there will be surpluses and it develops means for taking these surpluses off the market either by diverting them to other uses or finding wider markets for them.

In this last field there is ample room for voluntary action. We recall one instance which illustrates the point. A surplus in sweetpotatoes developed and the Government drew up plans for buying the surplus and taking it off the market. An administrator was called in to make the plan effective. His first move was to get in contact with usual channels of outlet and urge them to take as many as they could. The result was that the surplus disappeared and no governmental relief was necessary. Other surpluses have been moved in similar ways by voluntary efforts of merchandising groups. Obviously we should try to expand such operations.

We believe the Government could aid materially if a voluntary organization were set up to which producers and distributors could belong and join in pooling all the information available as to the supply and demand of farm commodities.

The facilities of the Department of Agriculture should be made available for assembling the data in proper form. A board of directors made up of producers, distributors, and Department officials should then make recommendations to its members and to others as to what items to push and what items to spare.

The CHAIRMAN. You still would have to use price to some extent as a regulator of production?

Mr. GOSS. Yes, indeed. Our flexible floor program recognizes that price is a most important factor.

The CHAIRMAN. If you maintain prices you perhaps encourage a production in excess of what you need. Maybe the public taste has shifted from one thing to another and there is no longer demand for one thing and production should be substantially reduced, yet, if you maintain the original price you are likely to go on with your production.

You are trying to alleviate the effect of very low prices but not entirely remove it.

Mr. GOSS. I said just before you came in, Senator, in answer to a question by Senator Myers, we believe in what we call a stop loss floor, a floor which would not let the price be so high as to be an incentive to overproduction. Then we believe in a flexible floor which would help maintain prices, but if the supply became excessive the floor itself would go down. We recognize price is a most important factor. What we want to eliminate is a speculative market which uses a surplus to ruin the producer of the surplus.

We have testified at considerable length before the Department of Agriculture on that point and I would be glad to discuss it or furnish a copy of the testimony.

The CHAIRMAN. Probably the most important job before the Congress next session is first to develop an agricultural policy and proceed with the 1948 policy.

I presume it will not be the province of this committee to do that, but certainly the committee will be interested in it to the extent we approach the problem.

Mr. GOSS. I hope the committee will make it one of its primary functions to push to a conclusion such a policy because we do not believe we can have stable prosperity until the problem of agriculture is actually solved.

However, it was not our purpose to go into details before this committee, but we will be very glad to do so if desired.

The CHAIRMAN. Where is your system spelled out?

Mr. GOSS. I testified on that point before the House Committee on Agriculture last April and they asked for further testimony particularly on our parity program, and we are now preparing testimony on that.

I will be very glad to furnish the committee members copies of the testimony, or comment on any phase of it at any time.

Senator O'MAHONEY. You feel, however, as I understand your testimony, that the removal of an avoidable surplus from the market should be by voluntary action and not by Government action?

Mr. GOSS. It may require Government action in spots. I am confident cotton and wheat will need it in certain instances. We feel there is room for great improvement in present practices in certain commodities.

I cited sweetpotatoes. A few years ago we had a surplus of sweetpotatoes, so a program was developed of supporting the market by buying up surplus supplies. They called in an administrator, and before actually starting to buy he got to nosing around and found there were places where more sweetpotatoes could be sold through the regular channels of trade and the first thing we knew the surplus vanished.

We have found like situations in other lines. I have in mind in one case a chain store was asked to take up a surplus of peaches. A very serious situation arose just before the new crop came on. There was a tremendous surplus of canned peaches. The chain store had every one of the clerks at the cash registers to suggest "Won't you have a can of peaches?" Almost overnight the surplus developed into almost a deficit.

I wish you would let me read this paragraph 45 of my prepared statement and comment on it.

The public has no way of knowing whether the farmers or the trade are long on peaches and short on pears, and takes no responsibility for adjusting its buying to available supplies. It is influenced almost solely by price and frequently price levels are too slow to reflect the true situation. A concerted effort to move those items in long supply and to protect those items in short supply would probably solve the problem of surpluses in 75 percent of our commodities and possibly as much as 90 percent.

Senator O'MAHONEY. What is the experience in the field where farmers' cooperatives are operating?

Mr. GOSS. They have done a great deal, but the actual push at the retail level has never been properly organized to push the things in maximum supply and spare those things which are in short supply, and what we are proposing is in addition to what we are doing, that an organization in which the Government, the producers, and distributors are represented be set up to make a survey.

Senator O'MAHONEY. How would such an organization be supported?

Mr. GOSS. I do not know. I assume it would be supported partially by the Government and partially by membership fees, but anyway it seems quite apparent to us that, if such an organization could point out to the retail trade that these items should be pushed, and those items should be spared, we think there would be greater stability interjected.

Senator O'MAHONEY. Would not the reports of the Bureau of Agricultural Economics with respect to supplies if properly distributed, be sufficient to afford at least the information upon which they could voluntarily act?

Mr. GOSS. I think the reports contain the information, but I think they would have to have a pretty big staff of clerks in most of the instances to read those reports and work out the program. It seems to me that a group such as I mentioned would be in a position to make definite recommendations of those items which are in the greatest distress, and if it were made up of distributors and producers with the Government sitting in in an advisory capacity, and furnishing the information, I believe most distributors would pay attention to it, and would take proper steps to help equalize those differences.

The CHAIRMAN. Would you not have a pretty constant opposition, because I remember in the World War Food Administration when meatless days were suggested, if it brought about any meatless days every stock grower rose up and said the price was not too high and objected to the Government or any volunteer organization interfering. Unless you have a pretty well prescribed set of prices I do not see how you are going to work this without violent opposition.

Mr. GOSS. I do not think you need to tamper with the prices at all.

The CHAIRMAN. Who is going to decide it?

Mr. GOSS. This board of directors which is made up of Government officials, of distributors and of producers can determine quite easily when there is a shortage or an oversupply of most commodities, and all they have to do is to say we believe that this commodity is in a dangerous position of surplus. We wish you would push it. This commodity is scarce. The price is apt to go too high. Hold back on it.

I believe voluntary action can do a tremendous amount.

Returning to this case of the sweetpotatoes, the attempt was made to correct it by price. They got in an administrator who believed a little good salesmanship would help and it did, but the very next time they had a surplus of potatoes, they did not let that fellow handle it and the Government bought up the sweetpotatoes.

The CHAIRMAN. My difficulty is—who is going to decide if the price is too low and there is a surplus or the price is too high and there is a deficit?

Mr. GOSS. I would not attempt to handle the price at all. I would point out there is a surplus.

The CHAIRMAN. The surplus would provide the price drop. So obviously price is the element you are interested in.

Mr. GOSS. It is to prevent a surplus which will destroy prices.

The CHAIRMAN. Yes.

Mr. GOSS. But you take the canned peaches. There was not a word said about price. They only said we have a tremendous surplus of peaches. It is greater than we ever had. They asked one of the chain stores to push them, and they pushed them at the regular price and the surplus disappeared.

The CHAIRMAN. Peaches are not such a necessity, but even in that case the fear was the price of the new peach crop would be too low.

Mr. GOSS. Maybe that is it.

The CHAIRMAN. Perhaps a lot of consumer organizations would say it ought to be low.

It would seem to me you would have to have some figure which is more or less accepted as the low and high return. You have a flexible floor.

Mr. GOSS. There might be some instructions to such a board that they should stay within certain ranges of support before they took action. That would be quite possible, but the thing we are trying to do is to bring into play the proper use of salesmanship instead of running to the Government all the time. We believe we can spare a lot of running to the Government if we can develop the mechanism for maximum salesmanship and say, "this group is accumulating too many potatoes," or "this group is in short supply of oil seed" and then push one and spare the other. I did not use a very good example.

The CHAIRMAN. All right, very well.

Mr. GOSS. To make such a voluntary clearinghouse effective, a Federal charter would be needed not only to prevent duplication and to assure widespread participation, but also to provide a legal background with fair and equitable rules for operation.

For those items which could not find an open market at remunerative prices through the means suggested above, or otherwise, price supports should be provided. If supports are contemplated, there must be some way of measuring the level at which they should be applied. The immediate need is a revised parity formula which would provide an accurate measuring stick of agricultural price levels.

In considering parity we must take care that we do not confuse the measuring stick with the remedy to be used after the measurement is applied. The parity formula is nothing but a thermometer to determine whether farm prices are too low or too high in relation to each other and to the rest of our economy. If the thermometer shows that agriculture has a fever, steps may be necessary to control excessive prices. If on the other hand the thermometer shows that agriculture's temperature is below normal, other steps may be applied to bring the price level up to a compensatory basis. Our present formula is little better than none at all and because of its many inadequacies is resulting in supporting prices of some crops at far above an equitable level without affording any protection at all to other crops. We assume that your committee does not desire to go into the details of the steps necessary to establish a new and sound parity formula.

Having provided a sound measuring stock in the way of a parity formula——

Senator O'MAHONEY (interposing). The main question that suggests itself to me in connection with the recommendations you have already made in this paper; namely, that the prices for agricultural products should be sufficient to enable farmers to pay wages which are competitive with industry——

Mr. GOSS. That is correct.

Senator O'MAHONEY. That would, of course, necessarily greatly increase the wage level on the farm; would it not?

Mr. GOSS. That is correct.

Senator O'MAHONEY. And if the wage level on the farm is increased then, of course, the whole basis of the present parity formula is knocked out the window?

Mr. GOSS. That is right.

Senator O'MAHONEY. Therefore the new parity formula will necessarily have to be based upon this new wage concept, or at least we would have to take that into consideration; would we not?

Mr. GOSS. Yes; I do not know just how to answer that question without going into more or less detail.

We have proposed two types of revision. One is inclusion of farm wages plus modernization of our present formula. Another is a completely new formula based on parity income in which we believe we can get a more accurate measure without the consideration of wages or any base period whatever.

It is a little complicated. It would take perhaps 15 minutes to explain it.

The CHAIRMAN. Does it have a tendency to make agricultural prices have some relation to industrial prices, or some relation to the cost of production?

Mr. GOSS. I would say it has some relation to both, and the theory is just this:

As I explained in the paragraph I have read, you cannot change a man's desire by law. All you can do is to provide for a free medium of exercising those desires, and if a man can do better by working for wages in the city than on the farm, all things considered, living conditions, everything that satisfies his desires, he is going to the city. We want freedom so people can move back and forth. Over a period of years in our free economy, because it is a pretty free economy, you would have movement from industry to agriculture and agriculture to industry, backward and forward. The measurement of that movement is the measurement of the exercise of their desires, and establishes a pretty good relationship between the value of the price level between industry and the price level between agriculture.

Now, we have worked out a formula which takes those measurements of the past and applies them to the future. It is all a bit complicated. I have given it somewhat in detail in my testimony before the Committee on Agriculture and they have asked I go into greater detail. I have in preparation quite a detailed brief upon it.

Personally I think it is better than modifying our present formula. I think it is really simpler, but if the Congress does not agree with it, we certainly urge that our present formula be modified by including farm wages and keeping it continuously modernized.

Senator MYERS. You mentioned there has been a flow from the farm to the city and the city back to the farm.

More of them are leaving the farms for the industrial sections, are they not, than those leaving the industrial sections to return to the farm?

Mr. GOSS. Yes; and they always will. Our birthrate is greater on the farms than in the cities; that is one reason.

Senator MYERS. It seems there are some gentlemen farmers leaving the cities.

Mr. GOSS. That is true, but once in a while the trend goes the other way, as it did in 1933. We are not anxious to have the trend come the other way.

Senator MYERS. This program which you outlined for us; you say it should be a flexible program and a voluntary organization, but as you go in and develop it, it seems to me that you are not only suggesting that the Government participate in the organization but that the Government assist and help find the required answer which will necessitate some legislation.

Mr. GOSS. I think it will require legislation. It may require legislation to permit Government action without being subject to the Sherman Antitrust law.

Senator MYERS. The Government is going to do something more than merely participate on a voluntary basis?

Mr. GOSS. Yes; I think that criticism of my testimony is correct.

Senator MYERS. I am not criticizing, but commenting. It takes us back to your thesis that we want as little Government interference as possible. All of us are sick of it, but when we get down to the specific plans or suggestions that is where the Government comes in. We may object to the Government interfering in our own plans and formulas, but we immediately suggest Government assistance or help or interference, or whatever term you use.

Mr. Goss. In this particular plan which we have suggested I do not think there would be much interference. The Government does have the knowledge; it does have the statistical information. It would act as sort of a clearinghouse between the producers and consumers, and as Senator Taft has suggested, it might be well to say that this Board (which recommends whether a crop should be moved, pushed, or held back) should stay within a certain price range relating to parity. In other words the Board would act only if prices were very high or very low, not if they held within a medium range. The activities of the board might be regulated in that way, but it would be more or less statistical information and the means of bringing the various interests together, the people that have the supplies and the people that use them, and say, "Here is what we have. Let us put them together."

Senator Myers. I trust you do not mind these interruptions as you go along. It clears up the testimony.

You have just read a sentence on page 11:

> Our present formula is little better than none at all and because of its many inadequacies is resulting in supporting prices of some crops at far above an equitable level without affording any protection at all to other crops.

I wonder what those crops may be.

Mr. Goss. Well, I think potatoes is an outstanding example.

Senator Myers. I was wondering if there were others.

Mr. Goss. The price might be too high on corn.

Senator Myers. I was referring to your sentence—

> Our present formula is little better than none at all and because of its many inadequacies is resulting in supporting prices of some crops at far above an equitable level without affording any protection at all to other crops.

I was wondering if there were some other crops included in that other than potatoes.

Mr. Goss. I think that corn is too high, although the market is above the support level.

Senator Myers. I was going to follow with that.

Do you believe the price-support program is responsible for the present high prices of foodstuff other than potatoes?

Mr. Goss. There might be one or two items but not outstanding.

Senator Myers. The prices are so far in excess of supporting prices I fail to understand why there is so much propaganda and why so many people believe higher prices for food are due to the support program.

Mr. Goss. Market prices are above support prices on most items and that is due to the high demand from Europe because we have more than we need if we do not export.

Senator Myers. Potatoes is one single item, or at least the one outstanding item.

Mr. Goss. I think so. You know the problem of shipping potatoes. That is different.

The Grange believes in price supports at levels which will protect the producer from ruinous prices. The level of support with relation to parity would probably vary with different commodities, but the level should be established at a figure which will give such protection without proving incentive in character to the point of encouraging unmarketable production. We call this support a "stop loss floor." In addition to this, in certain commodities we would recommend floors of a flexible nature which would be adjusted annually, based upon the amount of surplus or deficit in prospect. We assume the committee is not interested in the details. I suspect that is the wrong assumption.

The CHAIRMAN. We will go into that later.

Mr. GOSS. Any system of marketing involving the use of floors must have an outlet for commodities when the price falls below the floor. Such an outlet involves the necessity of selling some of the commodity at less than the floor price.

In order to do this, a two-price method must be devised. For example, if a floor price of $1 a bushel were established for wheat and the price fell to below $1, a method must be devised for diverting part of the wheat to feed or the manufacture of glucose, or some inferior use, and distributing the loss by reason of such inferior sale among all the producers of wheat. We call this a multiple-price system. We assume your committee is not interested in the details which would ordinarily be considered by the Committee on Agriculture.

Those commodities of which we produce an exportable surplus frequently find adequate markets in the free markets of the world. Where such a condition does not prevail, trade agreements may be justified. Also steps may be justified for marketing foodstuffs in cases of need at least than world figures. In either case the principles of the multiple-price system may be soundly applied.

Turning to the problems of industry and labor, we find the conditions quite different from those which prevail in agriculture as will be pointed out in the testimony of Dr. Sanders.

Theoretically, the law of supply and demand should control both the prices and the supply of commodities and the wages and supply of labor. In practice this is seldom fully the case. Since the war we have witnessed a battle between labor and industry in which the forces of competition have been negligible, and in which the principles have had little concern for the public welfare.

Labor saw industry taking advantage of short supplies and maintaining price levels which yielded a tremendous increase in profits. Instead of attempting to secure reduction in price levels, labor took up the battle for increased wages so that it might share in those profits. There was no sign of competition in the decisions which gave labor a tremendous wage boost early last year and which touched off the whole inflationary spiral. It was a known-down, drag-out fight between a certain measure of monopoly control by labor and a certain measure of monopoly control by industry. The interests of the public were never given serious consideration.

We hear much about collective bargaining as being the solution for our economic ills. The fact remains that as long as labor and industry engage in collective bargaining without consideration for the welfare of the public, it is no solution. In fact, in some cases where labor and industry have gotten together and deliberately raised the price to the public, collective bargaining is a serious detriment to the public welfare. It seems to us that some method must be worked out under which this constant spiral of driving up wages and prices at the expense of the public must be brought under control.

In reading that I think I may have left the impression we are opposed to collective bargaining. We believe in collective bargaining as the means of establishing the relationship between labor and industry, but as we have pointed out, collective bargaining that is against the public is not solving our general economic problem.

One of the problems in connection with our labor-industry relations arises from deliberate restriction of production. During the war slowdowns in production were openly advocated by certain unions, and are still practiced partly as a means of spreading the work and partly as a phase of a vicious campaign to create distrust between labor and management. Industry has generally adjusted its price levels with due recognition for the increased costs brought about by reduced production.

On the other hand it is ridiculous to maintain that prices are definitely controlled by free competition because in too many cases this is not true. We have tried to assure effective competition through the Sherman Antitrust Act but it has been only moderately successful. We still have to maintain laws against usury although there is free competition. We still have to regulate railroad rates, insurance rates, and a lot of other things, although there is free competition. If there were actually free competition we would not see cases of corporations making net profits of 30 percent, 40 percent, 50 percent, and sometimes 100 percent in a year. A large part of industry is still charging as much as it can get by with when it gets an opportunity to put the general public in a "squeeze."

We are well aware of the fact that industry cannot vary its selling prices month by month. Its profits depend largely upon the volume of business, the rate of labor output, wages, and other items which are not completely within its control. If prices are dropped because a heavy volume of business had made such reduction possible, it is not easy to restore them when the volume falls off. We realize that the price level must be geared more or less to normal conditions.

Senator O'MAHONEY. May I ask for a little amplification of the concluding sentence of paragraph 55 which states—

> A large part of industry is still charging as much as it can get by with when it gets an opportunity to put the general public in a squeeze.

I ask that question because we feel from the testimony before this committee and from other sources of information, that price is one of the critical factors now. Therefore, if it be true, this committee could bring out the important fact that a substantial part of business is still charging all that the traffic will bear. For this reason, I ask your amplification of that statement.

Mr. GOSS. This statement is made, Senator, as a general statement, because profits for industry in general have been very good for several years until this last year, and all the information I can gather is that profits during this last year have been far better than they have ever been before.

Senator O'MAHONEY. There is not any question that profits in 1946 were very much greater than ever before.

Mr. GOSS. Very much greater and the margins were much larger.

I do not come prepared to cite industry by industry by margins, but I think we have all seen statements of 30, 40, or 50 percent on capital before 1946, and that is due very largely to the great volume of business.

When volume falls off those profits go down. and what we are about to propose is a method——

The CHAIRMAN (interposing). My recollection as to profits is that the high rate goes to 12 or 13 percent. It may be an exceptional industry with 30, 40, or 50 percent.

Mr. GOSS. An exceptional industry, Senator is what I am referring to. There are large industries that have very much less than 12 percent.

What we are about to propose is a method which would result in some type of automatic control of such a situation on a voluntary basis.

Senator MYERS. Do you think over a period of a year there has been the same increase in profits on agricultural products that there has been in industry? Do you think the same is true generally of all agricultural products, that is, there has been a tremendous increase out of line to some extent, as there has been in industrial prices?

Mr. GOSS. I think that is unquestionably true. I do think when we can keep up high industrial production and high employment and high agricultural production we will all have far greater profits than the average profit, but I do think agriculture generally has had some very very profitable years.

Senator MYERS. According to BLS—taking the year 1926 as the base, the wholesale annual price for all commodities other than farm products was 91 in the year 1929. In March of 1947 it had increased to 131. Farm products increased during that same period from 104 in 1929 to 182 in March of 1947, indicating that the over-all wholesale price increase has been greater in farm products than it has been in all other commodities.

Mr. GOSS. That may be true. I am not in position to dispute that or affirm it.

Senator MYERS. The source of these figures is the Bureau of Labor Statistics.

Mr. GOSS. I would like to have the committee feel that our suggestion is not to try to put agriculture in a parity position and say everybody else is a sinner, but we must all find means of equalizing these situations and in this coming paragraph is a proposal which I think can be put into effect on a voluntary basis and have a real effect.

What we propose is a voluntary arrangement between labor and industry which would meet these various conditions. If labor and industry in a number of America's largest industrial concerns would agree upon a program in which a ceiling would be placed on wages, and a ceiling on industrial profits, with all margins above such ceilings divided between labor, industrial ownership, and the public in the form of lower prices, with the major part of the saving going toward reduction in price, our inflationary spiral would soon be put in reverse.

Labor, industry, and the public would benefit through lower prices. Labor would benefit both in lower prices and in increased income if it increased production, and management would share in such benefits. Instead of adjusting the price structure, the savings might well be passed on to the public in the form of patronage refunds in the case of those industries which cannot adjust prices speedily.

It seems to us that the interests of the public would be served if some method of economic regulation such as this should be adopted rather than expending so much effort to regulate monopoly and profiteering through punitive measures. It seems to us that some such system would largely eliminate the risks involved in capital investment, the risks of unemployment, and the risks of inflation. It seems to us that it would increase the purchasing power of labor, the purchasing power of the general public, and would help to maintain industry at maximum production levels with employment for all. It sems to us that some such sort of economic adjustment would remove the incentive toward monopoly and would put automatic controls on those phases of our capitalistic system which are subject to the most criticism. If all this is true it seems to us that Congress might well give consideration to providing some incentive in the way of tax adjustments, or in some other manner, to those industries which employ such a system operating in the interest of the public welfare. The point might be raised that such a system, especially if a tax incentive were provided, would materially lessen the receipts of the Federal Treasury from corporate income taxes. There is more truth than merit in the suggestion. Most corporations are mechanisms engaged in the production of wealth. They add their taxes to the selling price and pass them on to the general public. The general public would find it cheaper to pay a direct income tax than the indirect income tax paid by corporations after it has been compounded through the processes of trade.

Senator O'MAHONEY. How would you propose that labor and industry should effect such a system?

Mr. GOSS. Well, there are a number of industrial-labor profit-sharing agreements in effect now, Senator.

This would merely bring the general public in by the recognition of the fact that the lower the prices the more would be the consumption, and the general effect upon the public would be beneficial.

Senator O'MAHONEY. Mr. McCormick, in announcing his formula that any price is too high which can be reduced, stated that he thought that the program of management should be based on a recognition of its social responsibilities to keep prices down.

Mr. GOSS. To what?

Senator O'MAHONEY. To keep prices down, while increasing wages and of course maintaining profits for industry.

Those three items are the same three items you mentioned, but I am wondering whether you propose an over-all system of this kind for all industries or whether you mean rather a recommendation that each industry itself follow the McCormick pattern.

Mr. GOSS. It is the latter. The difficulty with the McCormick pattern is that in some industries the volume is erratic. It is not possible to adjust prices to the public as rapidly as might be desired, and we suggest the patronage refund method as a flexible means of maintaining fair prices, to be used only industry by industry on a voluntary basis.

I have had the opportunity to talk it over with a number of men in rather substantial industries, some of our largest, and a number have agreed if we would all voluntarily do it, it would meet the situation.

I do not know that Congress could do anything about it unless it might be to encourage it through some tax incentive.

Senator O'MAHONEY. When you talk about a ceiling on wages, a ceiling on profits, you speak in terms of a rigid formula which would deny to industry the right to make more than a certain profit and would deny to labor the right to get more than a certain wage, but as I understand your point of view, the division of excess receipts or excess profits should be made between the consumer, the worker, and the owner by a lowering of prices, and a division of profits somewhere. How could you divide excess profits with the worker without increasing his wages? Would you give him a share in the profits?

Mr. GOSS. It would be a share in the profits under the proposal we have made. If the word "ceiling"spelled out to you leaves the impression that we mean compulsion, it is the wrong word to use.

Senator O'MAHONEY. That would be inevitable from the use of that word.

Mr. GOSS. What we have in mind is a voluntary arrangement between management and labor under which management says we will limit our profits to a certain amount and labor says we will not ask for any increase in wages, and all earnings above those limitations would be divided three ways, part to labor, part to management or ownership and part in reduction of prices.

Senator O'MAHONEY. What that amounts to is a profit-sharing plan for labor.

Mr. GOSS. With the public cut in. That is the important part of it.

Senator O'MAHONEY. That is keeping prices down?

Mr. GOSS. That is the important part of it.

The CHAIRMAN. You seem to assume every company produces the same. Suppose the Republic Steel Co. says, "No; we are not going to limit our profits the same as another steel company. We are much more efficient."

You have an industry where one cannot make any money and another makes 50 percent. They have the right to the benefit of their efforts. That is the very basis of free economy.

How can you devise a formula that will apply equally?

Mr. GOSS. What we have suggested is a voluntary arrangement, company by company. If the Inland Steel Co. were more efficient than the United States Steel Co. and put on such a profit-sharing campaign, it would certainly seem the purchasers of steel would find it advantageous to buy from the company that was the more efficient, and made refunds to purchasers on a patronage basis.

The CHAIRMAN. It seems the trouble is you are assuming an abnormal condition is a normal situation. Your proposal is a combination profit-sharing plan with a voluntarily imposed policy on the part of management to use any excess profits in reducing prices?

Mr. GOSS. That is correct. That is exactly what we are proposing.

The CHAIRMAN. There was a big concern last week who did criticize this. Some people said they were pursuing what they called a 10-percent policy, that is, their cost plus 10 percent. That is the position most automobile companies say they are in today. They are voluntarily imposing a low price on automobiles.

I do not quite see what we can do about it. We can promote the idea, and I am eager to promote it, that a company should use its profits to lower prices. There is no question about that.

Mr. GOSS. That is all we are proposing with this one exception, Senator, that your committee give consideration to the possibility of encouraging it through some tax incentive. We believe that type of profit sharing, with reduction of prices to the public as it can be done, is the solution that we must eventually come to. Whether that can be done entirely through competition we do not know.

The CHAIRMAN. The tax system, I believe, would be a restoration of the excess-profits tax. You would have to figure up a higher tax on profits over a certain something, whatever that something is.

Mr. GOSS. That is the only place we are suggesting the Congress should take action, and we do think it is worth your consideration.

Senator O'MAHONEY. You are recommending the restoration of the excess-profits tax?

Mr. GOSS. I would not say that is the only way it could be done. I would not want to answer that without further study.

Senator O'MAHONEY. It is perfectly obvious that is the way of handling profits.

Mr. GOSS. It is one way; yes. I would not want to pass judgment.

Senator O'MAHONEY. Your other suggestion is that there should be a reduced rate of taxation for those industries which install profit-sharing systems with their workers and with the public?

Mr. GOSS. Yes. I think Congress' greatest concern is the public, because the tendency is now to increase wages and increase prices and we are in an inflationary spiral. We are suggesting one means which we think will solve it.

The CHAIRMAN. If you could restore a free competition that would lower prices?

Mr. GOSS. If we can make free competition truly effective; yes.

The CHAIRMAN. You are discouraged. I hope we can get back to it some day.

Mr. GOSS. I hope we can, but I do not think we have.

Senator O'MAHONEY. Some time maybe the Finance Committee and the Ways and Means Committee will undertake to study a formula for the establishment of an incentive for the investment of private capital in risk enterprises for the purpose of stimulating competition.

Senator MYERS. I take it this program you suggest is for the reduction of industrial prices—the prices on all nonagricultural products?

Mr. GOSS. That is where it would apply most.

Senator MYERS. It seems to me that most of the earnings of the average workers and white-collar workers are spent on food, clothing, and housing, and from the statistics I have seen there has been a greater increase in the price of food than in the other two items.

Have you any suggestions for this committee as to how we might drive the prices of foodstuffs down?

Mr. GOSS. First, I would like to say I think most of the statistical information upon the increase of food is based on the 1939 index which gives an erroneous approach.

Senator MYERS. I might say you have taken the best year in a period of 15 years as a normal year. We can do a lot with statistics. You take 1928.

Mr. GOSS. 1926.

Senator MYERS. That is the best agricultural year in 16 years.

Mr. GOSS. Oh, no. If we take the period 1909–14 it would have been far better than that.

Senator MYERS. Well, accepting the period 1910–14 as the base, the year 1928 was the best in 15 or 16 years for agriculture.

Mr. GOSS. It was one of the best, but it was still below parity.

Senator MYERS. There has been a 33 percent increase in the price of food between July 1945 and April 1947, and there has been a 27 percent increase in the price of clothing. There was a 101 percent increase on food prices between August 1939 and April 1947 while the increase has been 87 percent on clothing; 93 percent increase in food from January 1941 to April 1947; 11 percent less on clothing.

So from 1929 on down through 1947 there has been a greater increase to the consumer in the price of foodstuffs than in clothing or shelter.

There has been a tremendous increase in the price of manufactured articles, too.

Every housewife who goes to market will return with less money than she did 4 years, 2 years, or 6 years ago. She is paying higher prices today than ever for the food for her table.

Mr. GOSS. I would not attempt to say.

Senator MYERS. I was wondering what you might have to suggest.

You have made a suggestion as to the way in which we might reduce the prices on all items other than agricultural items.

I wonder what you have to suggest to the committee or Congress as to how we might reduce the price of food to the consumer?

Mr. GOSS. I would say this, in figuring whether the prices for food are too high or not—and some of them are undoubtedly too high—that the increased cost of production which is made up of labor and of these items we are discussing should be taken into consideration to determine whether or not the farmer's income is out of proportion with others. I would also call to the attention of the committee the fact that the average housewife is spending a smaller percentage of her total income for food even today than almost at any other time, and the least of any nation of the world.

However, that does not answer your question. We know some prices for food are outrageously high. We know wheat is way out of sight, which means that bread has got to go up. We know some other things are high. The reason they are high in view of all the production we have is that the Government is buying so much food to send to Europe.

Now the only suggestion——

Senator MYERS. You mean the supply is not meeting the demand.

Mr. GOSS. The supply is not meeting the demand, and we did make the suggestion earlier in this statement that if the buying could be adjusted so it would apply more to the products in surplus and not concentrate it so much on the scarce articles, we believe that the effect toward lowering prices would be very appreciable.

Senator Myers. Is not the Government endeavoring to buy in that manner?

Mr. Goss. Well, maybe they do, but I do not think they do too good a job. In wheat, for example, they estimated the amount and suddenly came out with 100,000,000 bushels more.

Senator Myers. Would you suggest they decrease their buying of wheat and buy something else?

Mr. Goss. I think there are some improvements which can be made in buying.

Senator Myers. What should they buy if they did not buy wheat for export?

Mr. Goss. Well, I think, for example, among other things it is possible to buy and ship potatoes far more than we have.

I think it is possible to meet some of the European food needs with some of our fruits which may be a little bit more expensive, but which may in the long run prove better.

Senator O'Mahoney. Would you mean to ship potatoes to Europe?

Mr. Goss. Yes; I do think it is possible to ship some potatoes to Europe.

Senator O'Mahoney. I might say while UNRRA was in active operation the problem of the potato surplus was discussed with Governor Lehman then head of UNRRA. Much to my surprise it was revealed by the UNRRA experts that the people of many foreign countries would not take potatoes. They were not accustomed to them and would not have them.

The fact is that UNRRA tried to dispose of those potatoes.

Mr. Goss. I can state that is not the situation in a large part of Europe which is hungry today. For instance, in Germany. I am familiar with the situation in Germany. I have just come back from there, and they want potatoes. There is a tremendous problem in the shipment of potatoes. They can only be shipped when ripe. They can only be shipped during certain seasons—a very short season in the fall and spring. I do not think we have planned well enough on it. I do think, Senator, that some modification in a high price structure could be made by better buying for Government needs both for our military forces and for relief.

Senator Myers. I think if that could be done it should be done, but my question is rather directed to agriculture itself.

Can agriculture do anything to reduce consumers' food prices?

Mr. Goss. I do not know how it can be done with 6,000,000 farmers. With that number you cannot ask for voluntary reduction in price when somebody is out there offering to pay the money.

Senator Myers. How can you ask manufacturers for voluntary action when you cannot ask agriculture?

Mr. Goss. The cooperative form of business—I believe the profit sharing, such as Mr. McCormick laid before your group here, is a sound basis and in the long run will render far greater profits and greater stability.

I think farmers would find the same thing true if you could get your 6,000,000 together. I do not know how you could do that.

Senator Myers. You do not think it is possible for agriculture to reduce consumers' food prices, but that the law of supply and demand must run its course?

Mr. Goss. I would not say it is entirely impossible. I do think if we can get farmers' organized into cooperatives they can do a great deal. Without some sort of organization I do not see how you can get the farmers to do it.

I think most of our wheat growers will say prices are too high, but each individual wheat grower is not going to try to cut prices alone, knowing the other fellow will make a profit.

Senator Myers. That is our system of free enterprise.

Mr. Goss. Yes, but I would like to point out the cooperative egg people very frequently draw eggs out of storage to hold the price down, knowing if they go too high it is going to throw the market off.

When we have sufficient organization we can have some effect, but with the rather limited organization farmers have in the market I do not think there is any voluntary way they can reduce the prices on wheat and meat and a lot of other commodities while people are willing to pay for them. I wish there were, but I do not see it.

Senator O'Mahoney. Have you any independent comparison of the amount of foodstuffs we are exporting?

Mr. Goss. No. You mean in figures set up independent of the Government? No, we have none.

Senator O'Mahoney. What proportion of our food is now going abroad as compared with the war years, for instance?

Mr. Goss. I do not have those figures, Senator.

Senator O'Mahoney. Do you know how much of our food is going abroad now?

Mr. Goss. Well, only in a general way. I could not reduce it to figures. I know we are shipping between 500,000,000 and 600,000,000 bushels of wheat, which is a tremendous volume of wheat.

Senator O'Mahoney. My recollection is that the Department of Agriculture, through the Secretary, recently issued a statement which would indicate the amount of American food which is being exported is actually considerably less than has been generally understood, although, of course, it is a large amount—18½ million tons. Mr. Berquist, do you have any figures?

Mr. Berquist. The over-all, the total food exports runs this year about 7 percent. That is a little high. This revision gives a little bit less.

Senator O'Mahoney. The amount of food exported is a little less than 7 percent of the total production.

Mr. Berquist. That is right; meat about 3 or 4 percent, and the highest is wheat—better than 30, 31, or 32 percent.

The Chairman. All right, Mr. Goss, proceed.

Mr. Goss. We favor a system of taxation largely based on a graduated income tax. We feel the tax should be levied in approximate proportion to ability to pay or benefits received, but we feel that it should be such that all except those citizens in the very low-income brackets should contribute something in the form of an income tax to the support of the Federal Government. It is not a wholesome matter to allow a large percent of our citizens to contribute nothing. Such a system usually results in demands for more and more Government support.

Senator Myers. I might say we had a witness the other day who advocated the repeal of the sixteenth amendment as a solution of the problem.

The CHAIRMAN. That is a Pennsylvania solution.

Mr. GOSS. Well, we could not agree to that.

On the other hand we do not concur with those who desire to make sharp cuts in the incomes of those in the higher brackets. If some stabiltiy could be injected into the returns of industry such as we have suggested, the high returns for so-called risk capital would scarcely be necessary, and we are of the opinion that there will not be a tremendous volume of capital lying around idle because the owners do not like to pay an income on the profits they make through its investment.

Minimum wages and unemployment insurance have a place in our economy just as surely as stop-loss price floors and crop insurance, but we believe the need for them would be much lessened under some system such as we have suggested in paragraphs 51 to 62. We do not agree on a uniform, minimum wage throughout the Nation. We feel that the minimum wage should be adjusted to living costs. To provide a minimum wage which would be adequate in the centers of population where living costs are the highest, and the same minimum wage in those areas where living costs are lowest, would put the employer in the latter locations in complete wage competition with the employer in the former location, although he might be under other very serious cost disadvantages. The result would be to drive out of competition the employer located far away from our commercial centers, and to concentrate our industries more and more in a few great commercial centers. We feel this is an unhealthy development.

Unemployment insurance is still in its experimental stages. There have been altogether too many forms of abuse to warrant any further extension until ways have been devised to reduce the abuse to a minimum.

No discussion of our economic problem would be complete without touching upon foreign trade and tariffs. In answer to questions 2 and 3 of part 1, we have indicated that we believe that the American price level is too high to permit free trade with most foreign nations. Either our price level must come down or there must be protection for the producers, whether they be farmers, laborers, or industrialists.

The Grange has a policy with reference to needed protection. Briefly, that policy is that the producers should have protection equal to any differences in cost of production between home and abroad, with due recognition of the principle that when commodities can be produced more cheaply elsewhere by reason of natural advantages, we should purchase such commodities rather than to try to raise them ourselves at an enhanced cost to our own people; but when the price advantage is due to artificial conditions such as subnormal and exploitative standards of living, or subsidized imports to gain trade, American producers are entitled to protection, so that we may maintain our living standards. We believe any blind policy of world free trade without considering the economic consequences on the living standards of producers is dangerous.

We believe in developing world trade where it can be developed on a sound basis, and if reciprocal trade agreements can be entered into as a means of developing such trade, we approve them; but we believe that it is the responsibility of the Congress under our Constitution to develop the principles underlying such agreements, and that the

Department of State, in perfecting such agreements, should conform strictly to the policies laid down by the Congress. We are attaching a copy of our testimony before the Ways and Means Committee of the House on this subject as appendix II.

(The document referred to follows:)

TESTIMONY ON RECIPROCAL TRADE AGREEMENTS BY ALBERT S. GOSS, MASTER OF THE NATIONAL GRANGE, BEFORE HOUSE WAYS AND MEANS COMMITTEE, APRIL 28, 1947

1. The National Grange has a tariff policy built on many years of experience. It is quite simple. It is expressed in the slogan, "Tariff for one, tariff for all." We believe in the American market for the American farmer. We believe the American farmer should be protected against the competition of the coolie and peon labor of the most poverty-stricken nations on earth by a tariff based on the difference in the economically sound cost of production between home and abroad.

2. Let me explain what we mean by "economically sound cost of production."

3. We would not attempt to protect inefficient domestic production. Where by reason of climatic or soil conditions another nation enjoys natural advantages which would promote more efficient production than we can attain, we believe it is generally a sound policy to import such products as can be raised most efficiently elsewhere. However, where such advantages are not natural, but where lower production costs are due to the low standards of living of the producers, or other artificial advantages, we believe the farmer is entitled to such protection as will enable him to maintain an American standard of living. In the case of essential commodities which are not produced in foreign countries in sufficiently dependable volume to supply our needs, we believe the American producer should be protected from intermittent importations which merely serve to create such instability in our markets that domestic producers cannot operate profitably. We must protect the producers of essential commodities who are prepared to operate on an economically sound basis.

4. We believe the same principle should apply to labor.

5. Let us illustrate.

6. We can raise bananas in Florida, but it would be ridiculous to erect a tariff against Central American bananas to meet the difference in production costs between Florida and Guatemala. On the other hand, the American dairyman is highly efficient, but cannot meet our high labor and other production costs in competition with the low living standards of many countries whose occasional or steady imports serve to drive the prices of dairy products to levels which our dairymen cannot meet and maintain a decent standard of living.

7. We are well aware of the theories of the free traders who argue that if we import farm products in competition with domestically grown products, we will create credit balances in foreign countries, thus enabling them to buy automobiles, refrigerators, and radios, so that our industries would operate at high speed and create a domestic demand for more farm products. The theory is fine, except it doesn't work. There are two chief reasons.

8. First, with every dollar of competing produce we bring in we substitute a dollar of foreign purchasing power for a dollar of American farmer purchasing power. We get the worst of the swap. The American farmer spends his money here in America. Unfortunately, a relatively small part of the dollar going to buy foreign produce actually reaches the farmer who produced it. A large part of the produce exported from foreign lands is raised on enormous estates by peon or similar labor under unspeakable living conditions, and much of the credits thus created remain in the hands of the wealthy and serve to increase their investments. It is a fact that the farmers in much of the rest of the world gets a pitifully small share of the export sales values of what they produce.

9. Second, we may import less than 5 percent of our domestic consumption of a commodity and by that means drive the price down possibly 10 percent or 20 percent. Thus in order to gain $5 in foreign purchasing power of questionable value, we have reduced the purchasing power of our farmers $100 or $200 in the domestic market.

10. "But," the theorists argue, "the Nation gains because the people of our cities have bought their food cheaper."

11. Let us look at that one.

12. The first question to be answered is, "How long would the people of our cities have jobs if they undermine the purchasing power of those who create the basic wealth of the Nation?" We believe it sounder to have full production at prices which have a reasonably equitable relationship to the general price level than to try to buy food or supplies at less than cost and thus destroy the producers. If the price of the domestic product is too high so that farmers engage in profiteering, foreign importations should come in to bring domestic prices down. The question is to what level should they be brought down. Somewhere there is an economic price level which is reasonably compensatory without being of a profiteering nature.

13. A tariff based on the economically sound difference in the cost of production between home and abroad will leave the American farmer subject to world competition and thus prevent profiteering, but would protect him from having to reduce his living standards to that of the rest of the world. That is the exact measure of protection he should have. The destruction of the purchasing power of the producers of the basic wealth upon which our whole economy rests, can bring nothing but disaster upon all of us.

14. Unfortunately there has sprung up a group of theorists who base their whole thinking on the false premise that if we can have urban prosperity, farmers will automatically prosper. This totally ignores the fact that during the twenties when labor and industry enjoyed the greatest prosperity in history up to that time, this prosperity was not shared by agriculture because foreign markets kept domestic prices at a level too low to permit decent living standards for 40 percent of our people either engaged in agriculture or directly dependent upon farm trade for a livelihood.

15. These theorists blandly say, "If low food prices will contribute to urban prosperity, let more farmers move to town to regain a balance. Let cheap food come in and create better urban living conditions, and still more and more farmers move to our cities." This is actually the theory being taught our young folks in many of our colleges and universities by so-called farm economists.

16. Let us look at it.

17. Actually what these theorists are advocating is building urban prosperity by depressing food prices to less than the American economic cost of production, and driving American farmers off the land by bankruptcy to enjoy new-found jobs in the city, such jobs to be supported by foreign markets, such markets to be made possible by buying foreign food produced by peon labor. Such wild theories of America reforming the world, releasing the peons and coolies from the age-old servitude of the masters of the land, and transforming them into purchasers of automobiles and washing machines by transferring our farmers and those dependent upon them into industrial occupations, would be too grotesque for consideration were it not for the fact that some very influential and powerful groups are trying to put them into effect. Therefore, let us consider for a moment what the effect on America would be if their ideals could be carried out.

18. "Ill fares the land, to hastening ills a prey,
Where wealth accumulates, and men decay.
Princes and lords may flourish or may fade,
A breath can make them, as a breath has made;
But a bold peasantry, their country's pride,
When once destroyed, can never be supplied."

19. The very fact that our cities cannot even maintain themselves, that without the support of a virile rural population their declining birth rate dooms them as self-supporting economic institutions, should be indication enough of the superficiality of the "urbanites" with which these theorists have become infected. The social value of a strong, prosperous, virile rural population to any nation can be measured by so many well-recognized standards, that a defense of a program for strengthening rather than weakening rural life ought not be even a subject for question.

20. By subjecting rural America to the unlimited competition of farmers existing under the lowest standards of living on earth is surely striking a vital blow at rural prosperity.

21. Thus, we reject the theory of free trade and demand protection for the American farmers by tariffs sufficient to meet the economically sound cost of production between home and abroad.

22. It is constitutionally the responsibility of the Congress to establish the policies under which our trade shall be carried on. We are fully aware of the evils which have crept into tariff making by Congress, and of the impracticability

of a deliberative body of over 500 Members reaching sound conclusions on the thousands of individual items comprising the ordinary tariff measure. If Congress establishes sound principles, the application of these principles to individual commodities should be the work of technicians. The executive branch of Government should administer the provisions of such a tariff law just as it administers other laws. In order to assure itself that the law is administered in accord with the intent and purpose of Congress, a report on all changes in tariff rates, with basic data justifying them, should be made long enough before the change takes effect to be reviewed by the Congress, or by a joint committee of each House, and Congress should reserve to itself the right to rejeect by a two-thirds vote of each House, or the right to postpone by a two-thirds vote of such joint committees, any proposed change within 30 days after submission. Such a safeguard would assure that the intent of Congress was being carried out.

23. Our reciprocal trade agreements are built on no such sound theory. The theory behind them is that Congress cannot enact sound tariff legislation, because of log-rolling tendencies; therefore, the constitutional responsibility should be transferred to the Executive without any instructions as to policies, but with the simple safeguard that the last tariff law, which is condemned as unsound, be used as a guide and be modified up or down 75 percent. The fact that thousands of schedules have been decreased and not a single item increased, to my knowledge, would indicate either that the base is badly off balance, or that the administrators have a free-trade outlook which ignores as far as possible the act of Congress.

24. Reasonable stability of policy with reference to tariffs is essential to world trade. If these policies are subject to being changed at will by any Secretary of State or with each change in the Secretary of State, uncertainty and instability are the inevitable result. We call attention to the fact that we have had four different Secretaries of State within less than 4 years, either of whom could have made radical changes in our trade policies.

25. Wisely, Congress has been very cautious in the modification of tariff policies. Unfortunately for industry, labor, and agriculture, under our reciprocal trade policies administered by the State Department, no one knows what to count on now from month to month. No existing schedules can be relied upon, for some new agreement may be entered into containing a lowered rate on some commodity, and immediately, under the most-favored-nation provision, the rates are changed in every existing agreement. The net results of prevailing practices are those of instability and uncertainty.

26. An attempt has been made to get public support for reciprocal trade agreements through public hearings called in various parts of the Nation. Because of the technical character of the problems involved, such hearings are meaningless. We notified Grange leaders throughout the country of the proposed hearings, but, so far as we know, none of them felt qualified to discuss the technicalities of individual rates with the expert of the State Department who had a bill of goods to sell. The claim that this is "democracy in operation" smacks more of propaganda than of practical truth.

27. The argument is advanced that prosperity can come only through expanding trade, or that foreign trade assures prosperity. This is most superficial. Certain types of trade are beneficial. Others are meaningless, for no one gains merely by swapping dollars. Still others are harmful. It should be the responsibility of Congress to establish policies designed to promote beneficial trade, and to retard commerce which would result in loss of jobs or the curtailment of domestic production of wealth which could be produced domestically on an economically sound basis. To allow decisions on policies to be made by some individual possessed of the obsession that all trade is beneficial, or that the welfare of the Nation could be advanced by sacrificing agriculture, or labor, or any other necessary segment of our society, is certainly not living up to the responsibilities that the Constitution places on the Congress.

28. Section 8 of article I of the Constitution expressly provides that "The Congress shall have power to lay and collect taxes, duties, imports, and excises, * * * [and] to regulate commerce with foreign nations." There is nothing equivocal about it. It is the duty of Congress. Had the framers of the Constitution intended to grant such legislative powers to the Executive they would have said so. This provision of the Constitution is in perfect keeping with our basic theory of government, which provides a legislative branch to make the laws, an executive branch to administer them, and a judicial branch to interpret them. It is dangerous for one branch to encroach upon the prerogatives of another.

29. The present situation, with wholesale tariff slashes pending, justifies prompt congressional action designed to preserve the principle of reciprocal trade agreements but to assure that they be entered into in conformity with definite policies established by Congress. We recommend:

30. (*a*) The prompt development by Congress of principles designed to govern the adjustment of traff schedules.

31. (*b*) Pending the development of such principles, withholding enactment of any further trade agreements. The latter suggestion is made in recognition of the report that further wholesale reductions are in contemplation many of which may prove very unwise, but which, when once made, will be hard to change. We see no reason for undue haste. At least Congress should have full knowledge of what is in contemplation.

32. In paragraphs 3 and 13 we have set forth basic principles which should be enacted into law. These recommendations raise the whole principle of protection. We return to the Grange slogan, "Tariff for one, tariff for all" or "Protection for one, protection for all." We call attention to the fact that labor is protected by minimum-wage laws, maximum-hour laws, unemployment-compensation laws, and restricted immigration laws. Industry too enjoys numerous types of protection in rate making, certificates of necessity, and similar devices. It is not our purpose to condemn such forms of protection. The fact that our general standard of living is the highest on earth is probably due in considerable degree to some of these protective devices. The fact remains however that we have seen fit to increase our costs by such devices, and agriculture is paying part of the bill; and should share in the protection farm ruinous competition made possible by lower living standards in competing countries, and from intermittent raids on our markets at ruinous price levels. Such protection is effective only in the field of price. The American farmer would willingly take his chance in competing with the farmers of any nation on earth if he were producing in a completely free and unprotected market where his labor and other production costs were on a par with those in other lands. He can see no reason, however, why the food producer should go unprotected in an otherwise protected economy. We, therefore, believe that the protective principles developed by Congress should apply to all alike.

33. Congress having established the principles to be employed in the establishment of tariffs, we recommend that the Tariff Commission be made the fact-finding body in applying the principles to individual commodities; that its findings in detail be reported to Congress or a joint committee for review; that a 30-day period of review be provided during which Congress or a committee might reject the findings by a two-thirds vote; that no reciprocal-trade agreement be entered into on any commodity during such period of review; that the tariff provision recommended by the Tariff Commission be the basis of tariff agreement in all Reciprocal Trade Agreements entered into subsequent to the expiration of the 30-day review period, unless rejected by Congress; and that the basis thus indirectly approved remain the basis of all future Reciprocal Trade Agreements until changed as provided herein.

34. The charge is made (*a*) that the Tariff Commission is too slow in reaching its decisions; (*b*) that it is inefficient and is used as an instrument for paying political debts; and (*c*) that its findings are not practical.

35. If too slow, it should be provided with adequate force to assemble the facts promptly. There can be no reason why, with the cooperation of the State Department, it could not act as promptly as the State Department itself, unless the latter acts without full possession of the facts. That is where real danger lies, and is what Congress should take steps to prevent.

36. We do not believe the criticism of inefficiency and political origin is sound. However, accepting the criticism for the purpose of discussion, the question would arise as to what the alternative might be. Even though appointed under political motives, a bipartisan commission might reasonably be expected to hire efficient technicians who would be responsible for developing the findings. This is vastly better than no findings whatever, or findings based on the political considerations of the moment. If the possible inefficiency of such a commission is considered a serious threat, the danger might be effectively controlled by adding a provision to the law incorporating the British system of a "vote of no confidence" requiring the resignation of its members.

37. As to the practicability of the findings, we feel sure that they would better be based on fact than political expediency. If, however, Congress believes there is enough merit in the charge that the Commission would not meet practical consideration, the danger could be met by incorporating in the law a provision

that the State Department could accompany any findings of the Commission with its own recommendations, and Congress would be free to adopt whichever it felt were justified. After all, most other nations require ratification of all trade agreements by the deliberative law-making body of the land, and it would not seem an unreasonable safeguard to require the approval of the Congress if and when the State Department saw fit to depart from the policies laid down by Federal statute.

38. We realize that the procedure we have outlined is new and untried. We call attention to the fact that the policies of reciprocal trade agreements now being entered into are also new and untried. They are the result of putting into effect new theories in regard to international relations, and are largely not under congressional control. We believe that the possibilities lying in reciprocal trade agreements are too worth-while to abandon, and our suggestions are therefore made with the idea of bringing them under congressional control.

Mr. Goss. We recognize the fact that we cannot continue to export more than we import indefinitely. It seems to us the Congress or the Council of Economic Advisors should make a study of those items which can be imported into America without upsetting our economy. Obviously, minerals, oil, and other exhaustible natural resources should be among the items considered. We believe that incentives should be provided for importing commodities which will strengthen rather than weaken our economy.

We believe that consideration should be given to the exportation of capital to help establish industry in lands where such industry is badly needed. We do not believe in a policy of discouraging the industrial development of any nation. Industry, like agriculture, is a creator of wealth. Prosperity can come only from the production of wealth. The more wealth other nations produce, the better is our opportunity for sharing in the prosperity flowing from it through naturally beneficial trade.

In closing, let us say that we still fear that our greatest domestic problem centers around inflation and the policies of labor, industry, agriculture, and finance which contribute toward it. The general program we have recommended is designed in every phase to reduce the danger of inflation. For years we have been pouring new dollars in the form of currency and credit into an already surfeited market. We must reverse this process and the first step is a balanced budget with substantial reductions in our national debt. We urge that the Congress do not confuse reducing the debt with reducing taxation. The former is essential. The latter will follow in due time, but if urged too soon, will upset our whole economy.

Senator O'Mahoney. Mr. Goss, the Bureau of Labor Statistics' cost-of-living index indicates that in the period 1935 to 1939 as a base, the index in April 1947 had increased 56 percent, of which 31 percent is ascribed to food price increases.

Mr. Goss. I think the reason is this, that food——

Senator O'Mahoney. What I have in mind, according to your statement that the 1939 base is unjust to agriculture because agriculture was in a depressed condition at that time——

Mr. Goss (interposing). The same argument applies to the 1935–39 basis. We used the 1939 basis because that was used in the report of the Council of Economic Advisors. The figures are almost identical for the 1935–39 base as for the 1939 base alone, if I remember correctly.

Senator O'Mahoney. My purpose in calling attention to the index is to ask you whether or not you think we must adjust ourselves to a generally higher cost of food?

Mr. Goss. Yes, I think we must. We are not going to get back to anywhere near the 1935–39 basis and there are several reasons for that, Senator. Most of them are involved in the higher cost of production of food which comes from increased wages and further increases in farm wages that I think are in prospect and possibly justly so, and the increase in cost of things we buy.

Senator O'Mahoney. I have a table here from the Bureau of Agricultural Economics dated March 17, 1947, which purports to compare income for agriculture with the income for nonfarm products. There is a table showing the per capita income for agriculture and for nonagriculture.

I am going to ask the chairman that it be inserted at this point, but I desire to call attention to the fact that during a long period of years the ratio was about 4 to 1 against agriculture. In 1946, however, according to this table, the ratio was reduced to 2 to 1.

Per capita farm income for 1946 is put down at $626, whereas per capita income for nonfarming of all sorts is put down at $1,300. That would indicate that farm income, from the point of view of the farmer, at least in 1946, has come more closely to a reasonable relationship to the nonfarm income than at any previous time?

Mr. Goss. That is correct, and it might be thought it is too much.

I believe, according to our antiquated parity formula it would look like it increased too much. I do not agree that the antiquated parity formula is correct, but certainly the average farmer has no complaint about the income which he received in the year 1946. Some of them have gotten too much; some of them have a just complaint. On the average, agriculture is faring very well and it is a relief not to have to come before committees of the Congress and say agriculture is getting the short end of it.

I wish we might find some true basis of equity, and that is what I am trying to make, some suggestion toward the accomplishment of that.

The Chairman. Thank you, Mr. Goss.

Mr. Sanders, I think it will be impossible to go on now or continue this afternoon. Are you available other days this week, Thursday, perhaps?

Mr. Sanders. Yes, any time this week.

The Chairman. Suppose you come back Thursday morning.

Mr. Sanders. I will, Mr. Chairman.

Mr. Goss. Mr. Chairman, I want to thank you for your courteous attention and to urge that you do hear what Mr. Sanders has to develop, because I fear that my testimony unrelated to his may indicate that we have some prejudice between agriculture and labor. His testimony completes my testimony and will reveal the true situation. Really they should go together.

The Chairman. And develop the magic formula to correct all ills?

Mr. Goss. No, we do not have any magic formula but I believe we have some ideas that are worthy of consideration.

The Chairman. We greatly appreciate your being here, Mr. Goss.

(The table referred to by Senator O'Mahoney follows:)

Farm and nonfarm income, 1910–46

Year	Cash farm income from marketing	Gross farm income [1]	Realized net income [2]	Net income from farming to all persons on farms [3]	Income of the nonfarm population [4]	Per capita income	
						Farm from farming	Nonfarm from all sources
1910	$5,793,000,000	$7,352,000,000	$3,753,000,000	$4,450,000,000	$28,614,000,000	$139	$482
1911	5,596,000,000	7,081,000,000	3,435,000,000	3,915,000,000	28,575,000,000	122	468
1912	6,017,000,000	7,561,000,000	3,671,000,000	4,335,000,000	30,121,000,000	135	483
1913	6,248,000,000	7,821,000,000	3,786,000,000	4,387,000,000	33,375,000,000	136	521
1914	6,050,000,000	7,638,000,000	3,518,000,000	4,516,000,000	31,851,000,000	140	484
1915	6,403,000,000	7,968,000,000	3,745,000,000	4,395,000,000	33,859,000,000	135	502
1916	7,750,000,000	9,532,000,000	4,687,000,000	5,055,000,000	39,858,000,000	155	580
1917	10,746,000,000	13,147,000,000	7,011,000,000	8,329,000,000	45,031,000,000	258	640
1918	13,461,000,000	16,232,000,000	8,674,000,000	9,660,000,000	48,461,000,000	304	671
1919	14,602,000,000	17,710,000,000	9,249,000,000	9,877,000,000	56,259,000,000	319	762
1920	12,608,000,000	15,908,000,000	6,778,000,000	8,368,000,000	65,025,000,000	265	878
1921	8,150,000,000	10,478,000,000	3,603,000,000	3,795,000,000	54,538,000,000	119	720
1922	8,594,000,000	10,883,000,000	4,057,000,000	4,850,000,000	55,667,000,000	153	718
1923	9,563,000,000	11,967,000,000	4,842,000,000	5,608,000,000	65,067,000,000	180	815
1924	10,221,000,000	12,623,000,000	5,128,000,000	5,560,000,000	65,074,000,000	180	792
1925	10,995,000,000	13,567,000,000	6,103,000,000	6,866,000,000	68,321,000,000	223	812
1926	10,564,000,000	13,204,000,000	5,699,000,000	6,617,000,000	73,779,000,000	216	858
1927	10,756,000,000	13,251,000,000	5,706,000,000	6,314,000,000	72,188,000,000	209	820
1928	11,072,000,000	13,550,000,000	5,695,000,000	6,687,000,000	74,357,000,000	222	830
1929	11,296,000,000	13,824,000,000	6,044,000,000	6,741,000,000	79,213,000,000	223	871
1930	9,021,000,000	11,388,000,000	4,329,000,000	5,114,000,000	70,250,000,000	170	761
1931	6,371,000,000	8,378,000,000	2,744,000,000	3,482,000,000	56,371,000,000	114	605
1932	4,743,000,000	6,406,000,000	1,832,000,000	2,285,000,000	41,320,000,000	74	442
1933	5,314,000,000	7,055,000,000	2,681,000,000	2,993,000,000	39,013,000,000	93	419
1934	6,334,000,000	8,486,000,000	3,759,000,000	3,531,000,000	45,919,000,000	111	488
1935	7,086,000,000	9,595,000,000	4,566,000,000	5,144,000,000	51,254,000,000	162	539
1936	8,367,000,000	10,643,000,000	5,139,000,000	5,436,000,000	60,271,000,000	173	626
1937	8,850,000,000	11,265,000,000	5,225,000,000	6,171,000,000	65,385,000,000	200	670
1938	7,686,000,000	10,071,000,000	4,416,000,000	5,127,000,000	61,285,000,000	167	621
1939	7,878,000,000	10,548,000,000	4,554,000,000	5,357,000,000	66,158,000,000	176	662
1940	8,343,000,000	10,965,000,000	4,685,000,000	5,477,000,000	72,998,000,000	181	721
1941	11,157,000,000	13,800,000,000	6,454,000,000	7,601,000,000	87,232,000,000	253	850
1942	15,316,000,000	18,399,000,000	9,354,000,000	11,305,000,000	109,726,000,000	389	1,046
1943	19,342,000,000	22,785,000,000	12,306,000,000	13,930,000,000	136,273,000,000	532	1,250
1944	20,238,000,000	23,893,000,000	12,975,000,000	14,039,000,000	147,680,000,000	550	1,320
1945 [5]	20,781,000,000	24,584,000,000	13,229,000,000	14,740,000,000	147,227,000,000	585	1,294
1946 [5]	23,933,000,000	28,182,000,000	15,144,000,000	16,278,000,000	147,722,000,000	626	1,300

[1] Includes cash income from marketings, Government payments, value of home consumption, and rental value of dwellings.
[2] Gross farm income minus total expenses of agricultural production.
[3] Realized net income of farm operators plus adjustments for inventory changes and wages to hired laborers living on farms.
[4] Includes nonagricultural income of persons living on farms.
[5] Preliminary.

(Whereupon, at 12:55 p. m., the committee adjourned until 10 a. m., Wednesday, July 9, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

WEDNESDAY, JULY 9, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, Myers, and Sparkman; Representatives Hart and Huber.

Also present: Staff members, Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Mr. Francis, will you take the stand?

STATEMENT OF CLARENCE FRANCIS, CHAIRMAN OF THE BOARD, GENERAL FOODS CORP., NEW YORK, N. Y.

Mr. FRANCIS. Yes, Mr. Chairman.

The CHAIRMAN. I think one of the greatest and most important complaints today is as to the cost of food by the ordinary citizen. Perhaps you come more close to the consumer in that field than these agriculturalists who deal with over-all farm prices.

Do you wish to proceed with your statement?

Mr. FRANCIS. I do touch on that, Senator, and beyond that I will go as far as I can as your question might indicate.

I think I will start with the statement.

My name is Clarence Francis. I am chairman of the board of the General Foods Corp.

While I hope my testimony may prove helpful, I hesitated before accepting your invitation. In all humility, I must say that I am not an expert or authority of any sort. The food industry is too vast and too complex for the detailed understanding of any one man.

Twenty-five percent of the Nation's manpower, in fact, is engaged in the growing, processing, and distribution of food—a $30,000,000,000 business all told. There is agriculture. There are the meat, dairy, fish, and green goods industries. There is a far-flung, national system of warehouses and retail stores. And there is the packaged foods processing industry of which General Foods is a part.

Even here I cannot speak with the authority which a so-called dominant position in the industry might confer. General Foods does only about 2 percent of the total gross business of the food-processing industry which includes approximately 50,000 companies and which, in turn, is just one part of the whole food picture.

You will forgive me, therefore, if I refer rather frequently to my own experience and to those facts about General Foods which seem typical. I feel that I shall thus be on firmer ground than if I were to attempt to speak for the industry as a whole.

In preparing for this meeting, I have tried to boil things down to a few basic questions and answers which may suggest other questions to you.

1. What is our view of the general economic outlook?

In 1946 General Foods spent nearly $13,000,000 for plant improvement and equipment. We have authorized the expenditure of $20,000,000 more during 1947.

In other words, we are putting our money back of the belief that economic activity will continue at generally high levels for the next few years. There may be variations, but that's the over-all, immediate outlook as we see it.

Now, as to possible variations: Speaking of our own company, we have been trying to reduce inventories and minimize inventory risks—and I think that is true of most companies. It seems to me quite possible that the most serious risks may already have been discounted. We expected some decline in the national income during the fourth quarter of 1947. In view of recent developments, I am prepared to believe that such income will be less than 5 percent below the fourth quarter of 1946. I might add I think that is a very conservative statement. It might not go even that far. This could not be called a depression or even a recession. I prefer to call it a corrective, and a fairly mild one at that. The national income would still be about double that of the best prewar year, and we have had a population gain of about 10,000,000.

It is inconceivable to me, therefore, that we will not continue at a high level of business activity, certainly through 1948 and possibly beyond. Of course, we are not even attempting to look very much further into the future—as far, let us say, as 1951 or 1952.

2. What are the factors we consider in trying to gage the outlook?

For one thing, we pay close attention to estimates of the national income. Please note the attached chart entitled "Food Sales and Nation-wide Income." It will show that there is a very definite relationship between food sales and Nation-wide incomes. That is attached to your report. The first chart in the back.

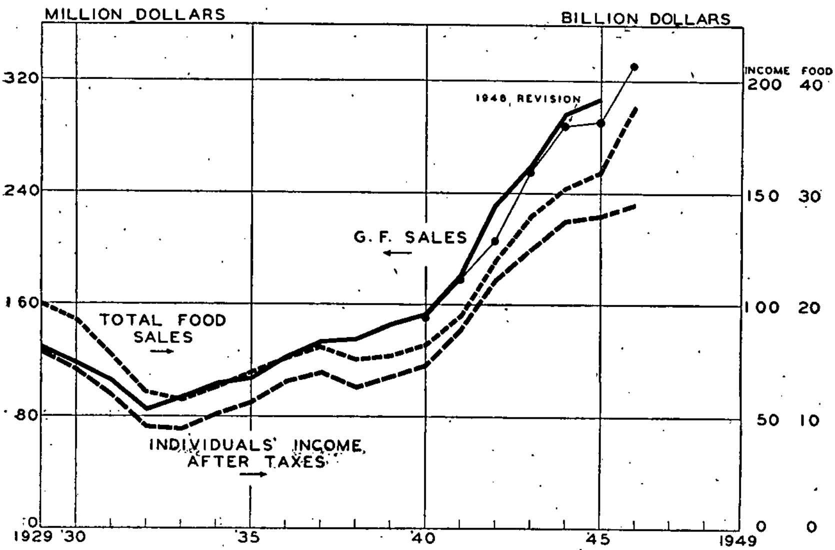
Mr. FRANCIS. You will note that we use individual incomes after taxes, or disposable income, as our guide line. In passing it should be noted also that the food industry is not an economic trend maker—in the sense that capital goods and durable goods are so described—but rather a trend follower.

Today two other factors especially influence the business outlook for the food industry. Nature and foreign demands are these "big unknowns," especially as they affect price trends. They can work together to drive prices in the same direction—up or down—or they can tend to offset each other. Both are subject to change without notice and a sudden change in either can upset the most carefully considered predictions.

The CHAIRMAN. Does this chart tend to show that food sales have increased more proportionately than the amount of disposable income?

Mr. FRANCIS. Quite definitely. If you will follow the chart, you

FOOD SALES AND NATION-WIDE INCOMES



will see. I touch on it later. You will note until 1942 the parallel is almost exact. From 1942 they break away, and I will repeat later that that trend is about 20 percent above the historical margin. I say food is getting a joy ride because there are less automobiles and refrigerators to buy. We expect to return to the historical level.

The CHAIRMAN. I remember it used to be said the demand for flour and bread was very inelastic, that even in good times there was not an increase in bread, but do you think it is peculiar to bread rather than food as a whole?

Mr. FRANCIS. I think there is a change, quite a change, depending on income. You might have the same tonnage of food, but it may be of different variety.

The CHAIRMAN. May this disparity in the 1945 rise in food sales in proportion to disposable income be due to disproportionate prices of food rather than volume?

Mr. FRANCIS. Quite true, but we are talking about dollars all through there.

The CHAIRMAN. You are talking about dollars?

Mr. FRANCIS. I am talking about dollars; yes.

The CHAIRMAN. So it might be if you adjusted price to volume these lines would be closer to 1942 than they are?

Mr. FRANCIS. Without question.

The CHAIRMAN. It would be more like pre-1942?

Mr. FRANCIS. Quite right. Without question. Certainly there is another interpretation which you might make. If you will notice, the black lines which are under sales on the chart go down from the 1929 mark, you will not our own business is less than the general food trend, whereas as buying power increased we go ahead.

I think on the average our prices are higher than the general average.

The CHAIRMAN. Specialties?

Mr. FRANCIS. Yes; it is very surprising what half a cent will do. The consumer is a very discriminating type of person.

In our price of coffee we test the process of competition in retail stores. If we cut half a cent below average standard we will find the reflection of that 2 or 3 months later in our own stuff. It is a very——

The CHAIRMAN (interposing). So you think the difference of prices between foods has a very marked effect on the purchase of foods?

Mr. FRANCIS. It has been my very definite experience. It is a very highly competitive industry. I think it is generally the reason why you see so many prices the same on similar articles of branded merchandise. Shall I proceed?

The CHAIRMAN. Yes.

Mr. FRANCIS. 3. What do we foresee as the probable trend of food prices?

As you know, food prices are important in two ways. They both reflect and affect general economic trends. Food constitutes about 40 percent of the worker's cost of living as measured by Government indices. Hence, food price trends enter into many other calculations.

At the annual meeting of General Foods stockholders in April I ventured the observation that food prices generally had reached or passed their peak. At the time I believed I foresaw a moderate recession in business activity which even then I chose to call a corrective. I expressed belief that such a corrective would have a generally healthy effect on the economy.

That being understood, I will say that I still believe that a further corrective in food prices is under way and that the average prices paid for food by domestic consumers may be as much as 15 percent lower by the time the harvests of 1948 are gathered. By this I don't mean to imply anything like a wide-open break in prices. Such a break would probably occur only in a depression, not a recession, and we don't foresee anything as drastic as that.

4. What are the reasons for supposing that food prices may decline as much as 15 percent by the time of the 1948 harvest?

Let us consider the domestic economic outlook first. If you will glance at the chart again you will note a significant fact, and this is somewhat repetitious: Down to 1942, food sales continued fairly parallel to disposable income. Then the joy ride began. While it is true that, "People have only one stomach," we have learned that consumers will spend more, for more foods of higher quality—when they have the money. So food, in the wartime absence of competition, has lately been getting more than its usual share of the consumer dollar.

We regard that as a warning signal. To us it means the food is in for stiff competition from new automobiles, appliances, and housing. In fact the competition has begun. And higher rents may have some further effect.

That's one factor. But the probabilities must be judged not only in terms of domestic business conditions but of world supply and demand. This is a complex question and I shall touch only on the high lights.

Domestically, most of the "pipe lines" are filled in food trade channels today. We have a record wheat crop. There is some carry-over in corn, offsetting a prospective lower yield this year. In most food items in fact, we would be facing heavy surpluses if it were not for the prospect of large export demands.

In the fiscal year just ended, as President Truman announced last Saturday, the United States set new high records for the shipment of food abroad. Yet Europe's "pipe lines" are still empty. The crop outlook is poor in many parts of Europe and even more doubtful in Asia. There is every likelihood that our foreign food shipments will exceed all previous records in the coming year.

However, it looks now as though our surpluses should be equal to the heavier demand, more than equal, perhaps, in view of a possible easing off in domestic consumption. Seed, fertilizer, and equipment have been sent abroad in some quantity. Other nations want, naturally, to grow their own food. Their activity is bound to increase supply, especially if more favorable weather prevails. Hence, balancing all the factors, we expect a continuing corrective in prices.

To what extent does the food processor control the prices paid by consumers?

On the basis of our own experience, the factors which dictate the price of food to the consumer are largely outside the control of the food processor. Rather, the processor merely transmits the effects of changes in supply and demand back and forth between the consumer and the producers of commodities. To illustrate, let me again refer to General Foods because I believe our experience to be typical of the situation in which the food-processing industry finds itself.

Sixty percent of our sales dollar is paid out for war materials and supplies, the price of which is established by others, not by ourselves This is true not only of domestic commodities such as wheat and corn, but of the many foreign crops which we buy in quantity—such as coffee, cocoa, coconut, sugar, and so forth, some of which are under Government control.

I think you will be interested in the following figures which show the increases in the prices which we paid for some of our most important raw materials and supplies between March 1946 and March 1947:

	Percent		*Percent*
Wheat	54	Starch	23
Corn	50	Raisins	40
Sugar	36	Cartons	42
Coffee	113	Bag cloth	50
Cocoa	220	Waxed paper	33
Rice	40		

Now what happened to the prices which General Foods charged its own customers meanwhile? Our average prices were about 25 percent higher in the first quarter of 1947 than in the first quarter of 1946.

I hope you will agree that this suggests an earnest effort on our part to hold prices down. This does not necessarily mean that we expect you to pin any roses on us. We consider it simple good business at all times to try to maintain our competitive position; and apparently, so do our competitors. And you will not be surprised when I tell you that today we are working to the smallest margins in the history of the company. If this is true with us, I believe it to be true of the industry.

We have remarked that 60 percent of our sales dollar goes for materials and supplies whose price is beyond our control. Another 20 percent of the sales dollar goes into expenses of a more or less fixed nature such as labor costs, heat, light, power, depreciation, freight, warehousing, local taxes, and the like. Most of these have tended to rise and our opportunity to make any substantial reduction in any of them is very slight. We can, and do, try to improve production methods and equipment. We can, and do, hunt constantly for operating economies, of course.

The remaining 20 percent of our sales dollar goes into such things as administration, selling costs, advertising, Federal taxes, and profits. Here again we have very little real chance to make decisive reductions. Naturally, I can't announce our selling and advertising costs but we believe them to be as low per pound, per package, or per case as is consistent with sound competitive operations in a free market where the customer is supreme.

Federal taxes, of course, are set by the Congress. And our profits in 1946 amounted, after taxes and contingencies, to 5.5 percent of gross sales and are running at about the same level this year. Not much chance here for price reductions while still maintaining a profit and loss system.

The CHAIRMAN. Mr. Francis, going back a moment, take the increases in coffee and cocoa. Is that a world price increase?

Mr. FRANCIS. Yes, sir.

The CHAIRMAN. Is coffee sold under a treaty agreement, or quota?

Mr. FRANCIS. I do not think there is any treaty. The price is set by the foreign countries. Recently it has been reported the Government of Brazil bought a million bags as Government property and they are not coming to market.

We dropped our coffee prices some 3 cents a pound some 4 weeks ago on the basis of a rather material drop of green coffee. It does not look as if that price drop can be sustained. It has gone the other way.

The CHAIRMAN. What about cocoa?

Mr. FRANCIS. That is controlled definitely by the British Government and it is a treaty matter.

The CHAIRMAN. Is there a quota on the import of cocoa?

Mr. FRANCIS. No; but you are dealing exclusively with the British Government and you are accepting their price dictated by them. We do not have any control over that at all.

The CHAIRMAN. All right, Mr. Francis.

Mr. FRANCIS. Is a profit of 5.5 percent on sales excessive?

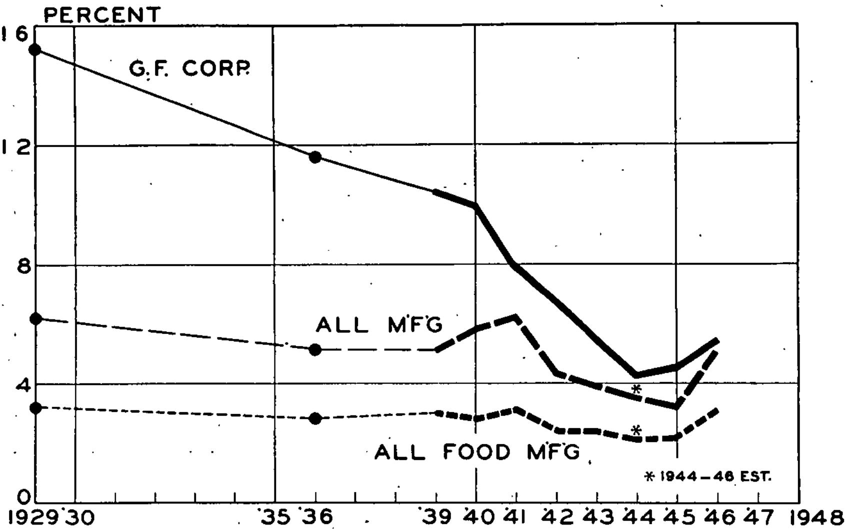
There is so much talk these days of excessive profits that I would like to comment on this point. The polls show that the public has a tendency to suppose that a company like ours makes a high profit—20 or 30 percent or even more. Frankly, I don't think most people would regard our present profit ratio of 5.5 percent on gross sales, after taxes and contingencies, as excessive.

Now let me refer you to a second chart entitled "Ratio of Net Profit to Sales—GF, All Food Manufacturing, and All Manufacturing Corporations." That is the very last one in your book.

Mr. FRANCIS. You will note that today our profits are close to the all-manufacturing average of about 5 percent, although still somewhat above the average for all food manufacturers, which is a little more than 3 percent.

(The chart referred to follows:).

RATIO OF NET PROFIT TO SALES
G.F., ALL FOOD MFG. AND ALL MFG CORPS
1929, 1936, 1939-1948



Admittedly we enjoyed at one time a high profit ratio. It has declined heavily through the years. Meanwhile we have been able to increase volume greatly. That, by and large, is as it should be.

The CHAIRMAN. You might state what kind of things your company sells.

I do not think you have said that anywhere.

Mr. FRANCIS. I tried to confine this merely——

The CHAIRMAN (interposing). The types generally.

Mr. FRANCIS. We are dealing in coffee, cocoa, tapioca, corn products, wheat products, fish, shrimp, oysters, dog food, coconuts, dessert products. I said corn and wheat?

The CHAIRMAN. You deal in specialties and basic commodities also?

Mr. FRANCIS. Yes, sir.

The CHAIRMAN. Are they mostly branded goods?

Mr. FRANCIS. Mostly. It is mostly specialty goods.

The CHAIRMAN. All right.

Mr. FRANCIS. By holding down prices, we contribute to purchasing power. And we give employment on case sales, not on dollars.

Still speaking strictly from a management point of view, I don't consider our present profit ratio adequate to insure the soundest possible over-all development of the company. Management has three duties: to serve consumers by providing the best values possible; to create jobs and opportunities for employees; and to reward stockholders with adequate returns.

To do these things we must constantly improve our plants and equipment. We must invest in research and in the development of new products. I know you have heard many business witnesses point this out and I'm not going to belabor it to the extent that there won't be "a dry eye in the House"—or the Senate, for that matter.

But I do think we are right at the heart of the important question which your committee has undertaken to study when we observe that profits, reasonable profits, are the true spark plug of America's freedom and growth. They generate the wealth which has given our people not only great material but spiritaual wealth. For profits also make possible the schools, libraries, universities, publications, forums, and institutions which we enjoy to a greater degree than any people on earth in all of history.

What can a corporation do to contribute to economic stability and continued prosperity?

I think I may have indicated some of the policies which I believe to be in line with these objectives. But if I had to boil it down to one thing, I believe I would say this:

It is the first duty of management to keep a company competitively healthy and sound.

To me the true source of America's economic greatness lies in the competitive nature of our system, regardless of shortcomings and failures in practice. Competition stimulates production, demands attention to more efficient methods, compels investment in better equipment, and forces improvement in products and enlargement of markets.

Hence, over the long run, competition creates jobs, goods, and services in a measure that no other known system can provide. Competition is the source of progressive management practices—whether it be in technology, in marketing, or in human relations. For example, there are sound competitive reasons for all of us in business to make every effort to stabilize employment.

General Foods, for its part, will continue to throw its competitive punches as hard as it can, not wildly but with the best judgment at our command. We consider this the primary way to attain the broader goals to which we, as a management, are pledged; namely, "jobs, freedom, and the greater dignity of the individual."

What can government do to encourage economic stability and continued prosperity?

At this point, you may expect me, as a businessman, to dwell extensively on problems of taxation, management incentives, industrial relations, and the like. I shall bypass all this, if you don't mind, not because I don't consider it important, but because some of the other witnesses have done an excellent job of detailing the ways in which Government can help to provide that all-important thing called a favorable atmosphere for business.

Instead, still speaking as just one representative of one company in a big industry, I should like to make a proposal with respect to food. I can't offer you a bagful of legislation. I'm not sure I can suggest a specific solution. But I can point out what seems to me to be the coming No. 1 problem.

Congress, I believe, is going to have to face up squarely to the problem of broad agricultural policy by the end of 1948, at which time wartime supports are scheduled to end. Much will depend, I think, on how well, or how badly, we handle this matter of surpluses when the picture of world demand begins to change. The world won't absorb indefinitely everything we produce beyond our own needs. And I think that the thought we give now to preparation for new conditions will have a lot to do with economic stability in the future.

Now I am going to say this at the risk of being misunderstood: I don't think all fluctuations can be fully eliminated from any economy, totalitarian or capitalistic, where progress is desired and achieved. But I do think every effort must be made to minimize fluctuations where possible. And in the field of agricultural policy I think healthy stability requires flexibility of approach. If the market tells us clearly, for example, that too much acreage is being given to a certain crop, then, I think, every uneconomic price or income support should be adjusted promptly in accordance with what the market is telling us. We cannot fight economic laws any more than chemists or engineers would try to fight physical laws, and we must learn to relate actions in one area to what we know of the agricultural problem as a whole. Moreover, we must learn to integrate farm policy with all our other efforts, private and public, to achieve economic progress.

What I am suggesting for the long range is this: Our Government has at its disposal vast data on world food supply, demand, and price trends. Can't we harness this information in a sort of "world balance sheet" on food and then cut our cloth according to the best analysis possible? And could we not, perhaps, put the job of cloth cutting in the hands of a qualified board of really expert persons, possibly three in number, who could be completely removed from pressures?

That is about all I care to suggest at this time. Getting back to the broader problems of industry as a whole, I should like to conclude with one thought.

I hope that all the discussions we are currently hearing will have one fundamental effect: To give to Americans and to the world a better understanding and a greater appreciation of this economic system of ours. For the one thing we know for sure is this: If there is to be peace, the American economy must be kept strong and free. And it cannot remain so without public understanding and support.

The CHAIRMAN. Thank you very much, Mr. Francis.

Your general conclusion on food prices is that the prices are made in a free market today by supply and demand and there is not very much that processors or anybody can do about it outside the Government?

Mr. FRANCIS. Yes. The main ingredient of the cost is raw material and unless there are some changes of this there are apt to be very slight changes in the over-all price structure.

The CHAIRMAN. Why are farm prices up more than other prices—more than metal prices, even?

Mr. FRANCIS. My answer to that, I think, has to be the straight law of supply and demand working; that there is a world demand that is pressing the supply to the utmost.

The CHAIRMAN. A world demand and a domestic demand.

Mr. FRANCIS. A world demand and domestic, too. Our domestic demand is, of course, very much less than our supply. I mentioned surpluses here. I would say if it were not for the foreign demand we would have large surpluses and we would be facing a very serious problem in agriculture.

The CHAIRMAN. Take meat. One of the serious problems is meat and yet only 3 percent of meat has been exported so that 97 percent is domestically consumed, apparently.

Mr. FRANCIS. Senator, I admitted at the start my lack of knowledge on many fronts and of all food problems I would claim less knowledge of meat than any other.

The CHAIRMAN. You do not handle meat?

Mr. FRANCIS. We do not handle meat.

The CHAIRMAN. It seems to me the answer is the increased domestic consumption must have a bigger effect than the export.

Mr. FRANCIS. I can merely guess or judge. During the early days when foods were rationed, steaks were sold in quantity in many areas where they were not sold previously.

I think unquestionably our increased purchasing power must have stimulated the demand for food.

The CHAIRMAN. Do you feel that prices, food prices, have more or less reached a stopping place?

We have had testimony from automobile manufacturers that they could get $200 or $300 more, if they did not hold the prices down.

Is there any such condition in food?

Mr. FRANCIS. No. Food is too highly competitive. The consumer is very discriminating. During the war the trade bought what we call "cats and dogs." Almost anything could be sold. The supply is such now that the housewife can get what she wants and the prices are adjusted by severe competition.

The CHAIRMAN. An effort to raise the price in any commodity is likely to hit consumer resistance?

Mr. FRANCIS. Quite definitely. To me there is quite marked resistance to increased prices.

The CHAIRMAN. Are stocks being increased?

Mr. FRANCIS. In my judgment stocks are being depleted rather than increased.

Frankly, our second quarter is going to be very disappointing. I think that is due to several reasons. There is normally a 12 week's supply between us and disposal of goods by the wholesaler and retailer. I am inclined to think it is too much. Any time they care to reduce they can cut it down to 6 weeks and when that is done we suffer.

The CHAIRMAN. Is that due to caution?

Mr. FRANCIS. Doing just what we are doing, trying to minimize inventory risk due to high prices. I think that is it.

The CHAIRMAN. Senator Watkins, I will have to go to a Finance Committee meeting, and I will ask you to preside.

Senator Watkins also wants to ask some questions. We may have to reduce taxes.

Mr. FRANCIS. In that case I think it is quite wise to have you excused.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. I was quite interested in your statement, about the last statement you made in reference to the appointment of a board of three in number completely removed from pressures, advising how much food to grow or not to grow.

Do you wish to expand this?

Mr. FRANCIS. Senator, I had in mind a three-man board such as we have on the Economic Conference which has served, and will continue to serve, a great purpose. I think it will become more important in that it throws out a viewpoint, crystallizes opinion, causes discussion, and, I think, corrects evils. I am more or less patterning my idea after that. If we had a three-man committee devoted to the agricultural problem, ascertaining world facts and putting them in an understandable form, such a committee could not only influence legislation but influence trends. I am talking about the acquisition and publication of facts rather than the promulgation of specific plans.

Senator WATKINS. I understand you do not mean crop control?

Mr. FRANCIS. No, sir; I do not.

Senator WATKINS. The quantity to be produced in any given crop because of world conditions?

Mr. FRANCIS. I do not. My recommendation is for the gathering of the data and presenting that in adequate form for use.

Senator WATKINS. You would not go into killing little pigs?

Mr. FRANCIS. Not for this committee.

Senator WATKINS. It would all have a bearing on price?

Mr. FRANCIS. I should think so.

Senator WATKINS. In other words, in the field of agriculture there are so many elements a man cannot control, and any effort to control might result in disaster, such as drought and flood?

Mr. FRANCIS. Yes.

Senator WATKINS. Such as the rainy season and floods, if a man tried to control that, that would happen.

Mr. FRANCIS. I would rather dislike to have that assignment.

Senator WATKINS. Your statement here:

> If the market tells us clearly, for example, that too much acreage is being given to a certain crop, then, I think, every uneconomic price or income support should be adjusted promptly in accordance with what the market is telling us.

In other words, I think you might agree to cut down acreage on this field because the production would be too much.

Mr. FRANCIS. We do have control.

Senator WATKINS. We do have control. Is it your opinion we have advanced to the stage we can and should control by artificial means?

Mr. FRANCIS. You are talking with someone who believes in a very minimum of control, but I certainly do believe there are times and conditions under which controls are necessary.

I am pleading for flexibility and adjustment depending on conditions. In other words, if the control has been put in, it does not mean it shall always stay.

I think that if publicity is given frankly and freely to changing crop conditions, it will result in quick and free action on the already established controls. We have them today on corn. We have them on wheat right here. You have your loan price, your parity price. You have other things. Are we going to keep them?

Senator WATKINS. As I understand it, you only want to use those controls either to force an increase in production or cut down production. That is the interpretation of the sentence I just quoted?

Mr. FRANCIS. I do not know that that is quite right.

My recommendation is for a committee for the development of facts. In the light of the facts, then, decisions will be made as to what should be done.

Senator WATKINS. For instance, during the war we paid support prices to increase the production of certain foodstuffs. They would have the effect of immediately causing farmers to go ahead because they did not fear an oversupply, and that is true even now with some commodities.

If we are going to manipulate this we will in effect be trying to control production by this artificial means.

I wonder if that is a safe process because agriculture is one of the most harzardous things in the world.

It would be hazardous to even attempt to control it.

Mr. FRANCIS. Senator, I do not think I am advising any specific action. We have controls today. I say in the light of existing conditions you are going to have to do something about them. Are you going to leave them in? Are you going to reduce them? Are you going to take them off? Under what conditions, when, and how? I say that a statement on the whole world condition, a balance sheet of the world supply, can have a vital effect on what you may do.

May I put it this way: If we are going to produce a billion four hundred million bushels of wheat this year, which I think is the estimate, and I presume that our domestic demand will be 800,000,000 or thereabouts, we will have a surplus if we continue this production of 600,000,000 bushels of wheat——

Senator WATKINS (interposing). That is as far as the domestic supply is concerned?

Mr. FRANCIS. That is as far as the domestic supply is concerned. If the foreign demand were to decrease greatly we would have that surplus. That could be very disastrous.

If you are asking me what to do about it right away, my answer is I do not know, but I realize it is a problem, and my answer is that the sooner we get to look at it and prepare for it from a long-range point of view, the better off will we be.

Senator WATKINS. That is all I have. Does any other member have questions?

Mr. HART. There has been criticism of the extraordinary disparity between the price the dealer has to pay and what the consumer pays. Does that disparity exist?

Mr. FRANCIS. Surely it does. We are even accused of it.

Mr. HART. Does the disparity in fact exist, that is, unconscionable disparity?

Mr. FRANCIS. There is a difference between what we pay for a bushel of corn and what the consumer pays, say for a package of corn flakes.

Mr. HART. Several weeks ago the United Fruit Co. inserted a very large advertisement in a number of our major newspapers pointing out they provided the wholesaler with bananas at 5½ cents a pound and the consumer was paying 18 cents for bananas.

The United Fruit Co. apparently thought that that disparity was unconscionable and unnecessary and resulted in excessive profits.

Does that situation obtain generally with respect to food or is it confined to a few items?

Mr. FRANCIS. My answer to that would be no, it does not apply generally. I can go back a long number of years, and I remember when the retailer had to get 15 percent and the wholesaler 25, making a total of 40. There are retail companies operating today on an over-all of 15 percent. That situation is very competitive.

I dare say there are sections in the country today, and perhaps different stores in almost every market, where there might be some criticism because of prices which seem too high. But on the over-all picture I think the situation is highly competitive and will become increasingly more so.

Mr. HART. I noticed an advertisement yesterday put in the paper by the American Meat Packers Institute to the effect the packers only made an average profit of 7 cents on each family of four, and down further in the advertisement it is stated when the price of meat went up it was due solely to the fact there was not enough to supply the demand.

Recently the price of meat jumped considerably almost overnight, yet many of our sources indicate there was no diminution in the supply of meat which would justify that extraordinary price increase or the contention of the Packers Institute that the price responded directly to the supply and demand.

Is it correct or incorrect that the recent sudden and extraordinary price increase was due to a sudden diminution in the supply of meat?

It seems to have come so suddenly and was so largely extended it appears that would be impossible.

Mr. FRANCIS. I am sorry. As I said to Senator Taft, I am just not familiar with the meat situation.

Mr. HART. There has been a great deal of talk about legitimate profits in these hearings, not a great deal, but some talk.

I recall a witness at one of our first hearings was alarmed over the criticism that was directed at legitimate profits in industry.

In the press there has been quite a bit of talk about it. You say the first duty of management is to keep a company competitively healthy and sound. What would be the norm of legitimate profits in industry in order to achieve this objective?

You say your profits amount to 5½ percent, and I think you say correctly there can be no criticism leveled at that. What in your own industry would you consider would be legitimate profit beyond criticism and fair to the company and yet permit you to attain the objective?

Mr. FRANCIS. Are you asking me to express that in mathematical percentage or purely principles?

Mr. HART. First, can it be so expressed?

Mr. FRANCIS. I would question it very definitely because of changing conditions.

Again, I hope you will pardon me for talking about my own company, but I am doing it because I happen to know the situation.

Last week we sold $25,000,000 worth of preferred stock. Now the reason we had to do that was because of an error which we made. I have to admit error publicly here, but all right, here it is, an error which we made in our business calculation. We felt that at this particular time we would recapture from inventory some $25,000,000 to $30,000,000. Today we have about $84,000,000 in inventory which is almost to a dollar what we had some time ago and the quantity is less. So we have to have the $25,000,000. As you recall, we authorized $13,000,000 for plant improvement and equipment and spent it last year and authorized $20,000,000 more this year. Now the question is: How much of your earnings should be retained for development of your business? Much depends upon the conditions prevailing at a given time, and I think they change. But as a matter of broad principle you should be able to meet them.

We started to prepare for the postwar era. We had our research department busy. We developed new ideas, new processes. Now, if we are going to expand it is going to take capital to do it. Exactly what the point of necessary return is, I do not know, for you have to look at the end figure in the light of changing conditions. For example, normally you are able to operate maintenance on the depreciation account, whereas today our maintenance is exceeding depreciation, so there is not a cash gain. As your price and volume go up your receivables increase also.

All in all, it is very much a matter of the individual company, depending on the size, the location, its operation, whether it is expanding, what the character of the national economy is, what your price situation is, and many other things. Certainly there should be an amount there to adequately reward the capital and your employees and permit your expansion and still have some for reserve. I think it is essential to our system of operation.

I did not mean to bypass your question, but I do not know how to answer it any more precisely.

Mr. HART. I understand that. I thought it probably could not be answered in any specific percentage market.

Do you have any comments to make on the Government practices for the purchase of food for export, and whether that practice should be continued and whether it has any effect on price?

Mr. FRANCIS. I am not an expert. I have heard unfavorable comment about some of the activities. Whether they are justified or not, I do not know. I have never made it my business to find out.

If it has not been done, it seems to me the best administration of that function is the same as anything in business; to get yourself the most capable people in industry, have them review what you have done, and outline a program to follow. If that has been done, then I think maybe the world ought to know about that, because we are going into a very heavy purchasing problem next year and—I think that is a pretty safe remark—the way we do handle that operation can have an affect on prices and stability.

Mr. HUBER. You mentioned your profit. What does 5½-percent profit mean in terms of profit on investment?

Mr. FRANCIS. I am sorry I cannot tell you. I will be glad to get the information and send it.

Mr. HUBER. How is that 5½ percent distributed between dividends and plant expansion?

Mr. FRANCIS. Are you asking for actual dollars?

Mr. HUBER. Yes, roughly. I do not expect you to pull the figures right out of the air.

Mr. FRANCIS. I am terribly sorry. If anyone has an annual report I will take it and figure it out or send it.

Mr. HUBER. Do you have your annual report?

Mr. FRANCIS. No. If I had it I could figure it out.

Mr. HUBER. You could send that.

Mr. FRANCIS. It would tell the whole business. I could read the figures.

Mr. HUBER. That might be helpful to the committee.

Mr. FRANCIS. I will be very glad to send the annual report, and what was the other question, what was the other information I said I would give you?

Mr. HUBER. As to how the 5½ percent in gross sales, what it means in terms of profit on investment.

Mr. FRANCIS. I will be very glad to do it. I am sorry I am not equipped to do it now.

Senator WATKINS. Any other questions? [No response.]

That is all. Thank you very much.

Senator WATKINS. The next witness, Mr. Schmidt, is in another committee and we will recess briefly.

(Whereupon, a short recess was taken.)

Senator WATKINS. The committee will resume its session.

Mr. Schmidt has not been released from the other committee as yet, but in the meantime Dr. Swanson will read his formal paper.

STATEMENT OF DR. ERNEST SWANSON, ECONOMIC RESEARCH DEPARTMENT, CHAMBER OF COMMERCE, UNITED STATES OF AMERICA

Dr. SWANSON. Mr. Schmidt's statement reads as follows:

ECONOMIC STABILITY

The Chamber of Commerce of the United States welcomes the opportunity to cooperate with the joint committee on the problems of maintaining enduring prosperity. Next to the problem of durable peace, this is the most important problem to every American. Indeed world peace and enduring prosperity are indivisible.

SEMIWAR ECONOMY

To some people postwar reconversion appears complete. It is doubtful, however, that we have reconverted the economy in the brief 2-year period to anything like normal peacetime conditions. Actually we remain on a quasi-war footing which has not permitted return to a normal civilian exchange economy.

Unless we can establish international peace, there may be little purpose in talking about domestic economic stability. Wars grossly distort the economy, expanding different parts unequally. Production and price distortions, including wage distortions, abound everywhere. The money supply is multiplied and seeks to express itself in higher prices. Because of the war-induced conditions we are experiencing a kind of prosperity, but it is doubtful that it rests on a secure foundation.

Since the war's beginning some prices and some wages have increased several times as rapidly as others. While a restoration to prewar relations might not be ideal, few would argue that the present wage pattern, the price pattern, or the production pattern will endure, or that the existing relationships can be permanent—patterns and relationships which are the byproducts of war.

We are exporting nearly $3 of goods for every dollar of imports. Dollar exchange is shrinking and already a number of foreign nations have placed restrictions on our exports to them merely to conserve their foreign exchange. This type of interference can accumulate very rapidly and lead to further trouble.

If the Marshall program, supplementing the Truman doctrine, is put into effect in the next months, it may cost this country many billions of dollars over the next few years. This may mean an additional drain on the products of our man-hours. We may unconcernedly extend "foreign credits" but in practice this means that we are making available services, goods, and raw materials to foreign lands. This will mean that we will have less to consume here, with additional upward pressure on our price structure.

It has been estimated that every 5-percent increase in the demand for agricultural products means approximately a 10- to 20-percent increase in their prices. The Marshall plan is likely to involve very considerable upward price pressure on many commodities.

This in turn will set in motion a generalized union-wage demand across the economy, because the public is so readily disposed to accept as just, the notion that wage increases must at least keep pace with price increases, like the opera company which sold more tickets than it had seats, and then to correct the unbalance it sold some more tickets. It is doubtful that we have learned even yet that further wage increases, when the cost of living is pressing against the wage structure, merely permits the consumers to bid more fiercely against the scarce supply of goods. If the Marshall program calls for several billion dollars' worth of goods per year, the American people will have to recognize that through one means or another their standard of living must shrink. Such shrinkage can be made effective in several ways, or a combination of these ways:

1. Rationing, price, and wage control.
2. Exceedingly heavy taxation to drain off excess money demand.
3. Government borrowing out of savings.
4. Inflation.

This matter is mentioned because we appear to be moving toward expanded programs of foreign aid and reconstruction, if not something of a much more ominous nature. If this is correct, it will be incumbent upon the Government of the United States to make clear in advance the cost in real terms, and not simply in the euphonious "foreign credit," what this program will involve in terms of belt tightening.

Is the foregoing not the crucial issue at this moment before your committee in terms of the problem of domestic stability?

REAL CAPITAL SUPPLY

For more than a decade and a half we have experienced a subnormal rate of capital formation, first due to the depression and then due to the war experience. Some war assets are being put to civilian use, but by and large we are grossly short of productive capital as well as certain specialized labor. Our basic capital supply, prewar, was designed to produce an annual national income of about $90,000,000,000. Our income has doubled. But, even after allowing for price inflation, we are today with our large monetary national income making an impossible demand upon our economy. Since 1929 we have added to our population the equivalent of two Canadas, and yet we have had relatively little net capital formation in this period. Electric-power shortages are widely predicted for next winter, as are fuel shortages. We already have gasoline shortages. In Chicago, newly constructed houses cannot install gas furnaces due to a lack of gas-pipe-line capacity. Our Government has just placed a restriction on the export of rolling stock. We have a shortage of paper, steel, lumber, many metal-alloy products; we are grossly short of commercial, recreational, and many other types of establishments. Hotel rentals are being bid up 12, 30, 50, and over 100 percent. Our roads have been neglected; public works in general have been neglected.

If this is a fair picture, your committee and its staff would be well advised to take a look critically into the general problem of capital formation and what conditions are essential to foster a vast increase in productive capital. Some take the view that our price and wage structure is diverting an unduly large portion of our productive effort to producing consumer goods and retarding the expansion of our capital supply. If this viewpoint has any validity it means that we must divert more machines and labor power to produce producer's goods, other durables, and permanent installations.

Normally, the free market would automatically make corrections of such a distortion by encouraging reinvestment of profits, the issue of new stocks and bonds, and in general encouraging thrift, which is the only way any society can raise its standard of living

For years thrift has been deprecated. Interest rates have been driven down to a point where there may be insufficient incentive to shrink current consumption, which is necessary if we are to divert a greater part of our manpower and other resources to capital formation. We have cast aspersions upon the investor, the landlord, the enterpriser, and risk-taker, whose talents and drives are so essential in creating a dynamic expanding economy.

Deficit spending in the 1930's having failed to solve the employment problem, in more recent years the same groups have now turned to the labor movement to accomplish the ends of deficit spending by increasing the share of the national income going to the wage worker.

Before the war's end, powerful movements, supported by Government bureaus, were set in motion to raise wages, "to maintain take-home pay," "to increase purchasing power," "to close the deflationary gap," and so forth and so forth. Thus, despite the fact that our problems today are so utterly different from those of the 1930's, we seem to have a recrudescence of what was then called pump priming. Today's pump priming his a more elaborate rationalization in what is miscalled the purchasing-power theory of wages.

In plain language, it is the simple essence of this theory that, by taking toll of consumers in general, for the benefit of selected groups of organized labor, the total of our purchasing power is somehow increased. Our total purchasing power is somehow supposed to be increased, for example, by giving consumers less coal—and less of all the things that coal helps to make—for their dollars, in order to give the John L. Lewis constituency some $13 a day for digging it.

Whether $13 a day is too high, too low, or just right, is not the point at issue. What is at issue is the straightness of the way we think about it.

Our total purchasing power cannot be sustained or increased by taking it away from consumers in general for the benefit of this, that, or some other occupational group. In fact, even these organized special occupational groups reduce each other's differential gains, because these groups are themselves made up of consumers.

The essential process of robbing Peter to pay Paul cannot make both of them better off, even though Peter eventually gets around to taking a turn at robbing Paul, with the protest that his purchasing power has recently been reduced. And far too many—in fact most of our consumers, whose purchasing power is reduced by rising prices, have no prospect of ever getting their turn.

These successive wage jumps have not translated themselves into mass unemployment only because of the war-created liquidity of individuals and business. They leave lagging many wage rates and incomes of some sectors of the economy and may in time make it difficult to clear all markets.

The uncertainty of fiscal and monetary policy and of wage and tax policy has placed a considerable cloud over the future of business. A year or two of good profits promptly sets the labor movement on fire, causes high administration officials to encourage further wage increases and to denounce profits and organize a campaign to "talk down" prices. In spite of good profits as a whole, investors hesitate, enterprisers and risk takers hesitate in uncertainty, and the stock market follows a cautious course, not conducive to equity financing. When the outlook is uncertain, the chances of recovering investments become dim, to say nothing of the chances of earning a return on the outlays.

If this is a valid, though unduly brief and oversimplified analysis, what can your committee do to set straight the thinking of our people so that proper balance may be restored? The Nation's concern with industrial potential in terms of both national defense and a rising standard of living, should indicate the supreme importance of this matter.

The substantial profits earned by American business today—between 4 and 5 cents per dollar of sales, or 3.5 cents per dollar of assets—are not earned by an omnibus corporation but by hundreds of thousands of separate enterprises.

Meantime, railroads, air lines, aircraft manufacturers, and others are operating close to the break-even point or at a loss. We must permit those adjustments which will keep the individual enterprise producing those things which the consumer wants and is willing to pay for. For this reason average wage rates, average profits, and average prices cannot tell us whether danger points are beginning to emerge. There is always danger in the use of these aggregates, because incentives are individual.

Because correctives must be individual, selective, and designed to fit the specific malady, it is very difficult for Government to do anything positive about those problems. Government usually uses a generalized remedy which has little capacity to cure the particular sore parts which need corrections. It is only as the Government and special interests help to open the way for natural adjustments to make themselves operative, that permanent remedies can be developed.

Because of lags in prices and costs, current profits may be misleading. It may take from a few days—an automobile manufacturer—to many years—a job printer—for the full effects of a general across-the-board wage increase, say in steel, to make itself fully felt in all sectors of the economy. Only when the printer replaces his presses and other equipment will he be confronted with higher steel prices. For this reason, it is probable that many businesses have not yet felt fully the rise in the wartime wage increase, to say nothing of the several postwar increases.

Depreciation rates are generally calculated on the historical cost of equipment. When the day of replacement comes, businesses generally will be confronted with much higher replacement costs. The large aggregate net cash and other liquid assets may not help the individual enterprise. Many of them will have to borrow and others will issue stock if the market is favorable. In other words, we face a very considerable problem of not only capital expansion, but also capital replacement. It will not be easy.

THE COMMITTEE'S TASKS

Your committee, Mr. Chairman, must be concerned primarily with legislation. It must also be conscious of the problems of administering existing and new legislation—that is, legislation in action.

But in economic affairs things usually are not what they seem. Social security may bring some security to the individual, but it has many repercussions on fiscal policy, on work incentives, on the mobility of labor, on the applications of labor, and the allocation of resources. A low interest rate saves the Government some debt charges; but it may cause excessive demand for capital and discourage thrift, under certain circumstances. It may help create an old-age problem for the Government by driving down earnings from savings, and it forces upward—inflation—a revaluation of all earning assets, farms, real estate, etc. A new minimum-wage law may say to the worker, "You shall not work for less than 75 cents an hour." Does the law, however, assure the worker of a job? Does it stimulate inflation? Would it at other times retard recovery?

In considering legislation, the committee should always examine the full implications as to its effect on costs, on prices, and on output.

There is always great danger of fixing one's eye on one of these and ignoring the compensatory and other reactions set in motion by a law or ruling, which may be adverse with respect to the one or both of the other factors.

The committee must always be conscious of the interrelation of wages, prices, and profits, the cost of borrowed capital, the problem of incentives. It must always be conscious that there is great danger in dealing in generalities and aggregates. Profits are not earned by "business" but by innumerable separate concerns. Perhaps nobody earns the average wage rate.

It has been said that no progress was made in determining whether or not civilization had progressed until the concept of "progress" was broken down into its constituent elements: Freedom from pain, from suffering, from oppression; freedom from tyranny of government and tyranny of private groups; central house heating; reduction of caries; adequate and balanced diet; and so forth. The committee, to be most useful, should similarly tackle these basic over-all problems by breaking them down into the forms in which they are in reality, and then examine their interdependencies. We know now that Government-inspired, 18-cent-per-hour wage increases, for example, were too much of a "blunt instrument" type of therapy. They had an enormous differential impact and solved no problems.

BASIC METHODOLOGY

The committee members should ask themselves from time to time:

1. What is there that we don't like about the present economic picture?
2. Can the Government really do something about this picture?
3. If the Government does what is proposed, what secondary and tertiary effects, which are not wanted, will flow from the action taken?
4. Is it possible to determine in advance the short-run, the long-run, and the intermediate-run implications of this or that projected policy?
5. If the Government did all that needs doing, would it do a really good job, and what kind of economy would we have?
6. How far would the Government have to go in many details and many directions in tying up the loose ends in this sector or that aspect of the economy if proposed policies are to be carried through?

BASIC PHILOSOPHY

We have taken our form of government and our voluntary economic system for granted for a long time. Except in the case of revolutions, the loss of liberty has occurred largely on a concealed step-by-step basis. Governments were pressured into bringing about cures, and, having failed to heed the foregoing standards, these cures frequently set in motion so many adverse effects that the economy bogged down and malfunctioned to the point where most cures seemed called for.

Fortunately, the Employment Act of 1946 throws its authority in favor of a voluntary individualistic society.

We have not been fully conscious of the perfectly enormous virtues and potentialities of this type of society. The 3.6 million separate business enterprises plus 6 million agricultural enterprises provide our economy with nearly 10 million foci of energy, of drive, and of ambition. Most of these enterprises are engines for fostering capital formation. Most of them are ever alert to use more mechanical horsepower per worker. Many of them are looking for innovations and improvements. We have 10 million places where experiments may be tried, where no outside authorization is needed to launch the new—all driving the standard of living of our people upward.

Our economy operates under about 10 million separate, private business budgets. No regimented or over-all planned economy can hope to compete in the dynamic drive that an economy has which possesses nearly 10 million individual centers of initiative. Economic progress with a rising standard of living for the masses is absolutely assured under this system if we can bring peace to the world and can create domestic peace and coordination between savers, investors, management, and labor, between Government and its citizens and groups.

The Chamber of Commerce would like to assure you that it will do everything in its power to help make this voluntary society function effectively. This does not mean complete freedom from Government. Government has a role to play, primarily in establishing the rules of the game, in creating a sound currency and banking system, providing statistical information not otherwise available, and in administering the now very large budget in a way which will release incentives where they need releasing most.

Of importance at least to the future potential economic progress under our system is the fact that we retain personal and political freedom under it. "All power corrupts and absolute power corrupts absolutely," said Lord Acton. Under a competitive economic system we have a great diffusion of power and authority. An asset we have lost in parts of the labor supply. No one business establishment can have much enduring power over you or me. Government should foster an antitrust policy which, while not hostile to so-called big business, will forever keep open the opportunity to launch new enterprise. This is the source of liberty, freedom, and economic progress. "Freedom of entry" should become the foundation of antitrust policy for both economic and political reasons.

Before war's end our committee on economic policy prepared a program for sustaining employment, a brief pamphlet setting forth practical policies for business, for labor and for government, designed to bring high-level stability to our economy. If in your judgment, Mr. Chairman, a useful purpose would be served thereby, we shall be glad to have you include this pamphlet in the record of these hearings.[1]

But again we want to emphasize the enormous difficulty of achieving economic stability, unless we can achieve international peace and bring about a genuine peaceful state of mind throughout the world.

SHORT-TERM PROSPECTS

While many serious economic distortions plague our economy, and the failure of achieving a durable peace is delaying the restoration of an economic balance, it would appear that the strength of market demand for most types of goods will sustain economic activity in the months ahead.

The parallels between postwar conditions following World War I and World War II are indeed striking as indicated by the following charts. If history repeated itself closely we should be headed now for a major general collapse. These charts while painting a somewhat ominous prospect cannot be interpreted as indicating any such collapse.

We should, however, be very careful that we do not read into such a comparison all the conditions of post-World War I and make them apply to post-World War II. After the World War I, peace was pretty well assured by the time the peak of the boom had been reached. Today we are on a quasi war footing which impels us to carry on an economic program fairly different from the years following World War I.

While the beginning contours of the two booms are much alike, we have as yet seen no unequivocal signs of bust.

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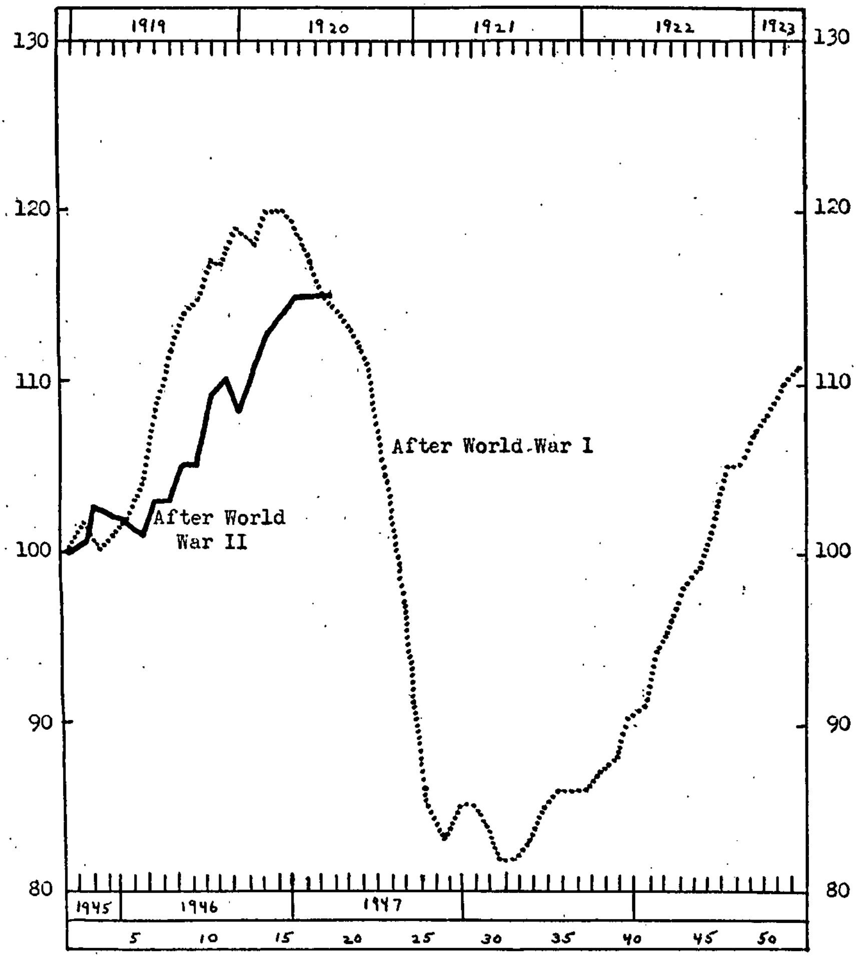
[1] A Program for Sustaining Employment. Report of Committee on Economic Policy, Chamber of Comerce of the United States of America, Washington, D. C., December 1945.

(The charts referred to follow:)

NATIONAL INCOME PAYMENTS

FOLLOWING WORLD WARS I AND II

(December 1918 and September 1945 = 100)



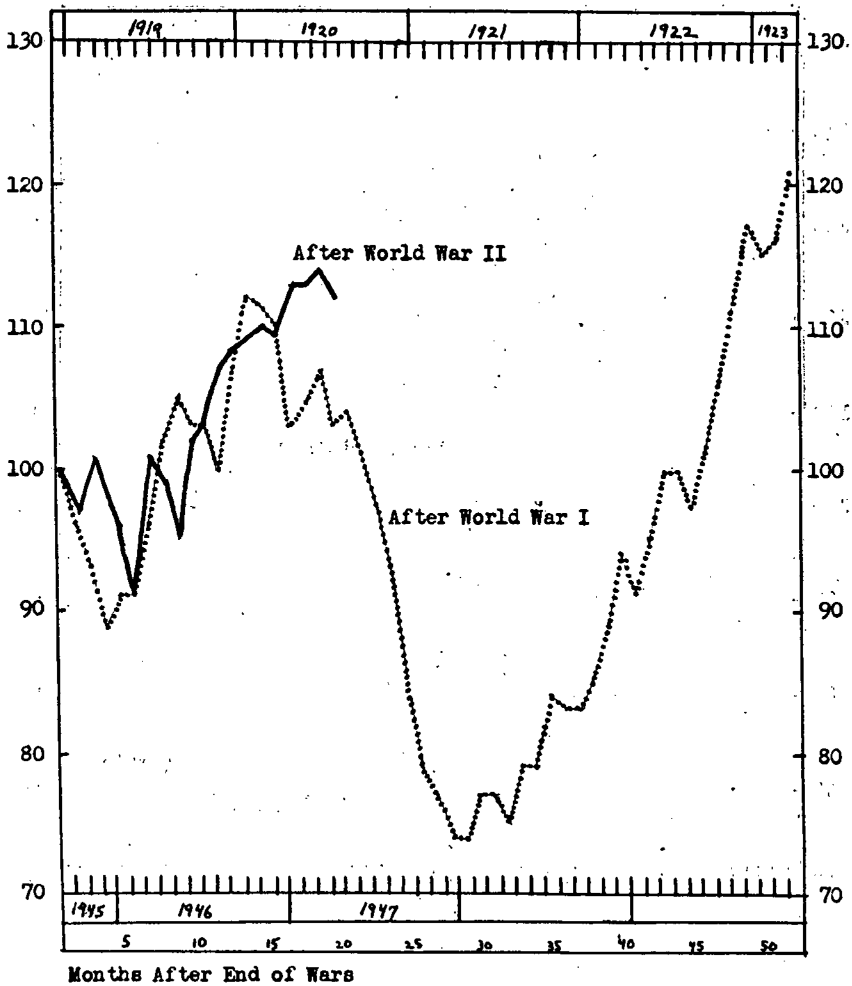
Months After End of Wars

Source of Data: U. S. Department of Commerce, First National Bank of Boston, and U. S. Chamber of Commerce.

INDUSTRIAL PRODUCTION

FOLLOWING WORLD WARS I AND II

(December 1918 and September 1945 = 100)

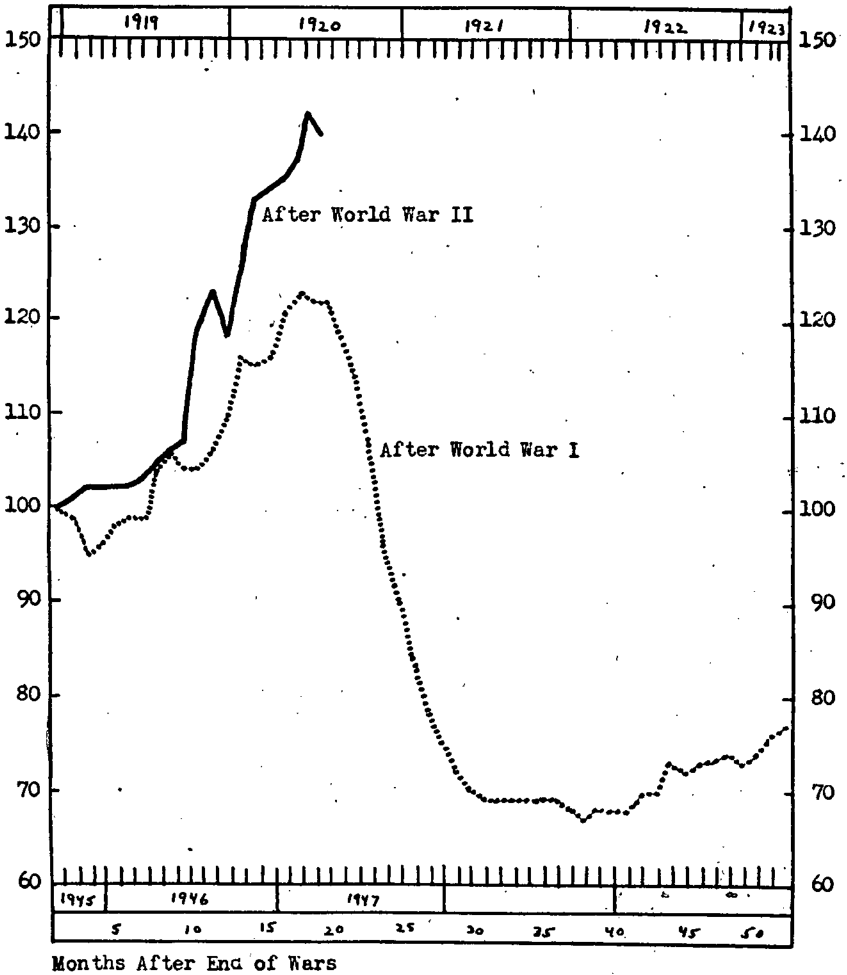


Source of Data: First National Bank of Boston, Federal Reserve Board, and U. S. Chamber of Commerce.

WHOLESALE COMMODITY PRICES

FOLLOWING WORLD WARS I AND II

(December 1918 and September 1945 = 100)

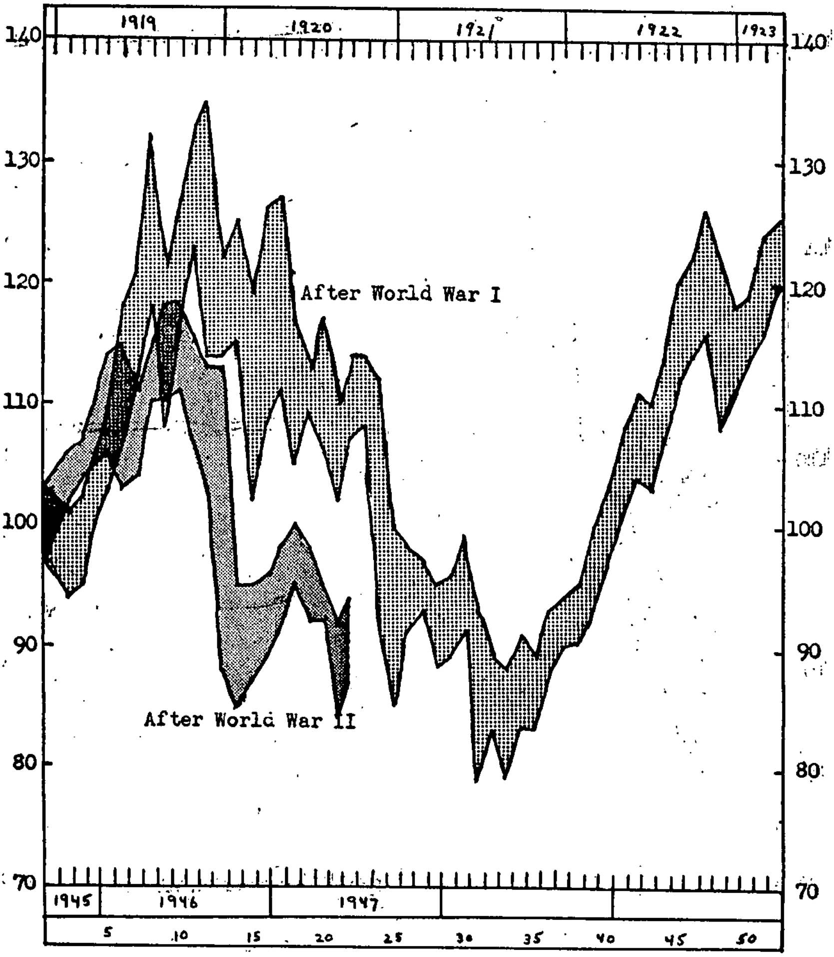


Source of Data: Bureau of Labor Statistics, First National Bank of Boston, and U. S. Chamber of Commerce.

STOCK PRICES

FOLLOWING WORLD WAR I AND II

(December 1918 and September 1945 = 100)



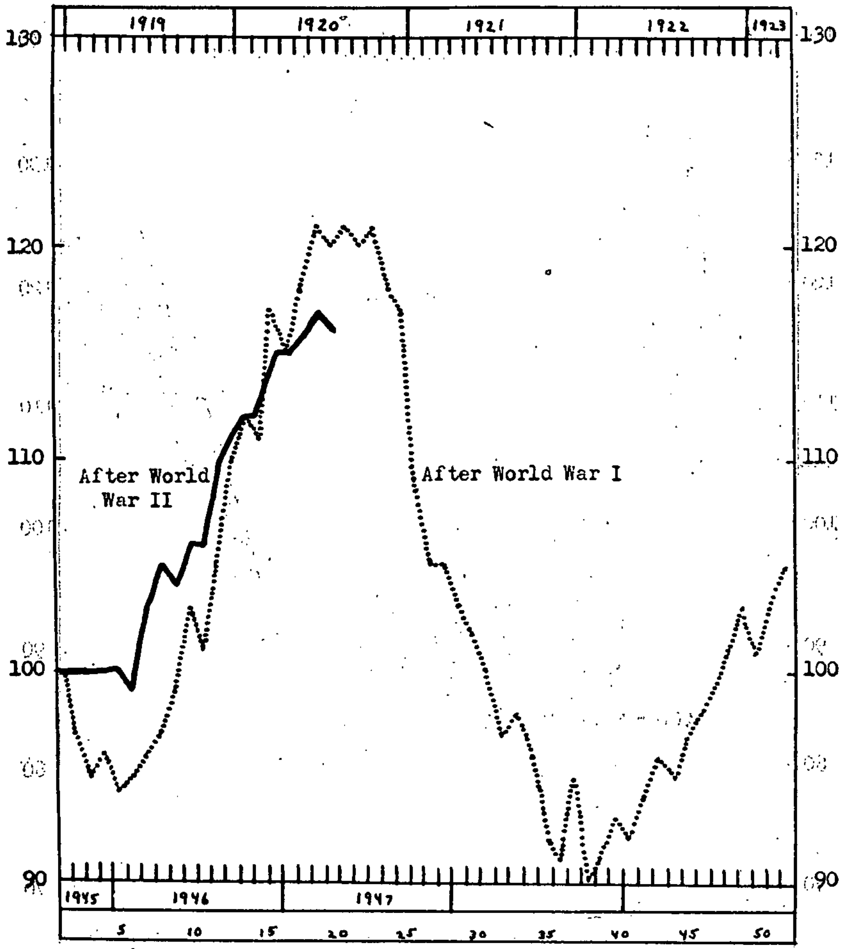
Months Following End of Wars

Source of Data: The New York Times, First National Bank of Boston, and U. S. Chamber of Commerce.

AVERAGE WEEKLY EARNINGS OF FACTORY WORKERS

FOLLOWING WORLD WARS I AND II

(December 1918 and September 1945 = 100)



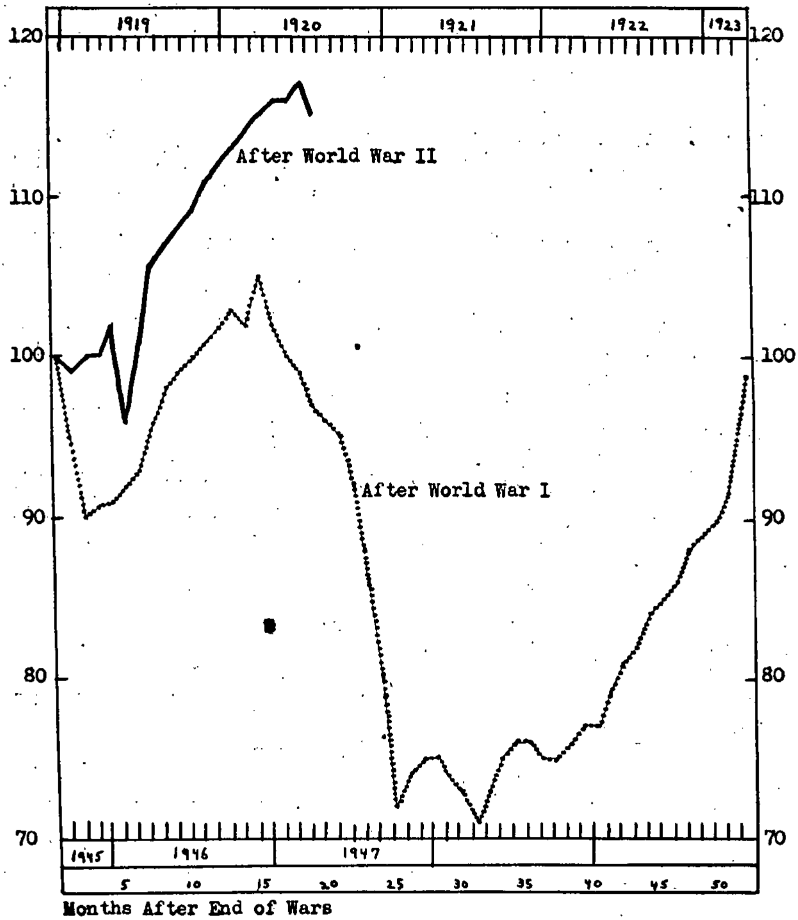
Months After End of Wars

Source of Data: Bureau of Labor Statistics, First National Bank of Boston, and U. S. Chamber of Commerce.

FACTORY EMPLOYMENT

FOLLOWING WORLD WARS I AND II

(December 1918 and September 1945 = 100)



Source of Data: First National Bank of Boston, Bureau of Labor Statistics, and U. S. Chamber of Commerce.

Senator WATKINS. Thank you, Dr. Swanson, you saved us some time.

Mr. Schmidt is now here and will be glad to submit himself for questioning.

STATEMENT OF EMERSON P. SCHMIDT, DIRECTOR, ECONOMIC RESEARCH DEPARTMENT, CHAMBER OF COMMERCE, UNITED STATES OF AMERICA, WASHINGTON, D. C.

Mr. SCHMIDT. I am sorry to be late. I was testifying before the House Labor and Education Committee and they got on your subject.

I will be glad to have Dr. Swanson continue because he knows all the answers.

Senator FLANDERS. If you get in trouble you might call on Dr. Swanson.

Senator WATKINS. You may call on him specially if you wish.

Senator FLANDERS. In going over this manuscript, Mr. Schmidt, if you will turn to page 2, the second paragraph which begins on that page.

I infer, perhaps wrongly, from your language, that you look at the Marshall program as an additional drain beyond what we are doing now?

Mr. SCHMIDT. Yes; I recognize that John Williams takes a different view. I think we do not really know because the Government has not taken its position.

Senator FLANDERS. Can the Government take its position until the nature and the amount of assistance is detailed?

Mr. SCHMIDT. No; it cannot.

Senator FLANDERS. Of course, the hope has been expressed by Mr. Williams and by others that this is a means of decreasing our financial responsibilities rather than increasing them?

Mr. SCHMIDT. Yes, sir.

Senator FLANDERS. You feel otherwise?

Mr. SCHMIDT. I think it will be contrary.

Senator FLANDERS. Beg pardon?

Mr. SCHMIDT. I think it will be contrary. If we go through with the kind of centralization or centrally planned program that we are talking about.

Senator FLANDERS. Centrally planned program?

Mr. SCHMIDT. A program under which some kind of coordination of the western European democracies is developed and under which some real capital expansion can take place.

Senator FLANDERS. Do you see any chance of recovery from Europe unless that is done?

Mr. SCHMIDT. No; but I think fundamentally, or perhaps simultaneously, is the bigger problem of political stability.

Senator FLANDERS. Do you feel that political stability can be attained in Europe without economic stability?

Mr. SCHMIDT. No; I am not even sure it can with it.

Senator FLANDERS. But it cannot be without?

Mr. SCHMIDT. That is right.

Senator FLANDERS. The problem is a serious one without question.

The last paragraph beginning on that same page you speak of the prospective increase in goods to be shipped abroad as setting in motion a generalized union wage demand across the economy. I am wondering whether that generalized union wage demand has not already been set in motion by agreements completely outside of Government action between the mine workers and the great steel industry?

Mr. SCHMIDT. I think you are right.

Senator FLANDERS. That is completely outside of any Government action whatever.

What about the responsibilities of the Government, if any, as to what looks like the initiation of the new inflationary spiral?

Mr. SCHMIDT. I am not sure that there is much the Government can do unless it generates a very, very large budgetary surplus. It seems that would be the best direct way of siphoning off the excessive purchasing power. It can do some educational work. It can argue against any generalized wage increase, but I am not sure that has much effect.

Senator FLANDERS. You are a bit pessimistic on that subject this morning?

Mr. SCHMIDT. This was mimeographed yesterday, so I must have been pessimistic yesterday.

Frankly, we do not know what the problem is because nobody has told us or intimated the size of the European program.

Senator FLANDERS. I suppose the miners' wage increase will be justified by the setting of wages at that level in order to bring men into the industry.

Can you conceive of any other justification for it?

Mr. SCHMIDT. None whatever.

Senator FLANDERS. If it does that and increases coal production, possibly that has been justified, but if it does not increase coal production you see no justification for it?

Mr. SCHMIDT. No; it means reduction of some other employment because we have overemployment now rather than underemployment. If we could divert some labor from the soft-goods line to coal, it would be beneficial, which I think is impractical. It may have that benefit which you imply.

Senator FLANDERS. In the middle of page 4 at the end of the first full paragraph of that page you submit in that program the general problem of capital formation and say:

> Some take the view that our price and wage structure is diverting an unduly large portion of our productive effort to producing consumer goods and retarding the expansion of our capital supply.

And later on you go into it a little bit further, and you continually, throughout this document, emphasize the fact that you do not have any general increase in our standard of living simply by increasing the amount paid out to this group or that group, or the other group as long as you do not increase production of goods and services. That, of course, is an obvious and perhaps neglected idea. It can only come from an increase in production and proper distribution of goods and services, and I take it you are emphasizing there the point that that increased production historically has resulted from increased investment and replacement of obsolete means of production by new and improved means of production, and that whole chain of improvement under management of the whole thing makes the worker's output per man-hour greater?

Mr. SCHMIDT. That is right. I think this would be worth looking into by your staff. For instance, in 1925 we built 925,000 housing units which were probably 50 percent larger than the present housing units. This year we will probably build 700,000 housing units.

I would like to know why this country, having expanded in population, capital, and so forth, cannot produce at least a million housing units in 1947. There is some process that is holding back. It is somewhat obscure. I have not thought through what those forces are. It is just a conundrum why this country after 22 years cannot exceed construction of 1925.

I have had the feeling, and I must confess it is a kind of a feeling rather a logical, well-thought-out rationale, that somehow something has gone radically wrong with our price structure that normally creates capital. That is what I am trying to get at, unless——

Senator FLANDERS. I would like at this point to ask you what you think of the pending tax bill so far as its effect is concerned on two things.

You spoke a moment ago about what the Government could do about this prospective new inflationary spiral. You referred to the possibility of the usefulness of attaining a large Government surplus, and you also at this point spoke of the necessity for investment capital. How would you criticize the pending new tax bill?

Mr. SCHMIDT. The bill is based probably on the prediction of the recession in 1948. If a recession does take place, which I doubt, I think the tax reduction would be well-advised. Anything that will stimulate capital formation would be well-advised. How that works out is a very complicated matter.

Senator FLANDERS. You have offered good advice for the committee for which I, as one member of it, am most grateful.

You feel, however, a little bit helpless about the Government doing anything about this new impending spiral of inflation in view of the fact it has been set in motion by business and labor. I am wondering if that does not put some load on the United States Chamber of Commerce from the business side?

Mr. SCHMIDT. We are even more helpless than you. You at least have the law on your side. We are just a voluntary organization. We can do educational work; that is all. We tried to prove in every way we could that the Nathan Report was wrong. We are working at it diligently week after week and will still keep at it.

Senator FLANDERS. One suggestion has been made in the way of education and resulting voluntary action that the union demands from this point on should be limited to demands based on the increase in the cost of living.

Now you refer to a hypothetical opera company here. I did not happen to mark that passage. It solved its problems by selling still more seats than it had.

Mr. SCHMIDT. At the bottom of page 2?

Senator FLANDERS. Yes. If that thing could be done, could not the spiral at least be slowed up? Can it be done?

Most demands go way beyond the requirements of the cost of living and most increases as I have seen them have been beyond the actual increased cost of living.

Mr. SCHMIDT. Yes. We are the victims today of overemployment, and businessmen are competing for the scarce supply of labor. I do not know whether you are implying the United States Steel Corp. has knuckled under, but according to one statement of an official of the United States Steel Corp., it was either that or a shut-down of the coal industry and the steel industry. Now those are hard choices.

Senator FLANDERS. I will just bring up one more point.

In the middle of page 11 you express a notion with regard to the antitrust policy which for some reason I never thought of, but which, as I read it, looks very sensible:

> Government should foster an antitrust policy which, while not hostile to so-called big business, will forever keep open the opportunity to launch new enterprises. This is the source of liberty, freedom, and economic progress.

I think we might well look at the antitrust policy from that standpoint, and I am particularly grateful to you for suggesting that approach.

That is all I have.

Senator WATKINS. Congressman Hart.

Mr. HART. I have none.

Senator WATKINS. Senator Sparkman?

Senator SPARKMAN. I would like to ask Mr. Schmidt a few questions.

Senator Flanders asked you something about the statement you made to the effect the Government could offset to some extent the inflationary spiral you either see or fear by creating a budgetary surplus. Is that the same as high taxes?

Mr. SCHMIDT. It can be attained by reducing expenditures, by maintaining taxes, or raising taxes.

Senator SPARKMAN. Or a combination.

Mr. SCHMIDT. Yes. I would think in the Marshall program, it is the duty of the policy-making officials to determine the outcome of the European program. They should be prepared to cut the expenditures of the Army and Navy. That is where the cut has to be made if substantial savings are to be made, either there or the veterans' program, because the other expenditures are for the most part not substantially cuttable.

Senator SPARKMAN. In other words, you would advocate the relief we give to Europe under the Marshall plan as more or less a substitute for a costly armed force?

Mr. SCHMIDT. Yes. I think it is the business of the businessman to know the implications of his own policy, and likewise the business of the United States Government to know the implications of its program. It has got to make a judgment and if its judgment is that the program is the right thing, there are ways to determine whether the thing is going to be successful. Then presumably there could be some cut in the $11,000,000,000 or $12,000,000,000 appropriation for the armed services.

Senator SPARKMAN. Let me see if I understand correctly your answer to another question of Senator Flanders having to do with tax legislation.

Did I correctly understand you to say that the proper form of tax legislation would be that that would create incentive capital or would give an incentive for capital investment?

Mr. SCHMIDT. That is right.

Senator SPARKMAN. And you mentioned about three things there.

Will you repeat them? One I know is double taxation of dividends. Is that one?

Mr. SCHMIDT. Yes; capital gains tax and corporate tax, and of course you have to think of the buyer or the consumer. After all he has to take the product off the market.

My own conviction has been, all during the war and subsequently, that then and to this day, I do not think we have quite lived up to our large money supply, our currency and bank deposit, plus other liquid sorts of money or near money. I do not think we have quite lived up to it, because normally we had a dollar of money for each two or three dollars of national income and the national income has grown enormously. If the prewar norms prevail, our price level is still too low considering the money supply, and some time we have got to increase our productive capacity per man-hour so we can adjust the present wage structure, because I think wages are too high for prices.

Senator FLANDERS. Senator Sparkman, may I ask one question there?

Senator SPARKMAN. Yes, Senator.

Senator FLANDERS. You spoke of the situation of overemployment. Why does not that situation of overemployment result in something approaching not overproduction, but a tremendous production which would tend to ease off some of these problems that have been talked about?

Mr. SCHMIDT. That is another point I was going to discuss, but Dr. Hardy says you do not like long statements. One answer I think is absenteeism. Before and after holidays, workers will absent themselves for no reason at all. And then again there is labor turn-over. I am told the labor turn-over is as much as 9 percent per month in some industries. You could not get any staff work done in this committee if you had that turn-over.

There is a lack of application on the part of labor and probably some carelessness on the part of management, because profits are easy and markets are easy.

We have higher employment than production. There is some lag there. It may be 5 or 10 percent. So we are paying in part the penalty of overproduction, probably getting less per man-hour than we would if we——

Senator MYERS (interposing). Is that situation continuing or improving?

Mr. SCHMIDT. It is improving very moderately. The National Industrial Conference Board just released a report this week in which they said two out of five employers said output had gone up. That still leaves three in which the situation is in doubt or worse over a year ago.

Senator SPARKMAN. Do I understand correctly from your statement a few moments ago with reference to the amount of available money supply as contrasted to available goods that it is not the lack of purchasing power that is hurting things?

Mr. SCHMIDT. That is right.

Senator SPARKMAN. In other words, purchasing power is ample among the people generally?

Mr. SCHMIDT. It is excessive.

Senator SPARKMAN. It is excessive?

Senator FLANDERS. Excessive to the amount of goods.

Mr. SCHMIDT. Excessive to the volume of goods we can produce.

Senator SPARKMAN. The volume available, and that is the only thing to measure it by?

Mr. SCHMIDT. Yes, sir.

Senator SPARKMAN. Then it is a matter of stepping up production rather than increasing purchasing power?

Mr. SCHMIDT. That is right.

Senator SPARKMAN. And I assume that is likewise your reason for saying the kind of tax relief that is really needed is that which will step up production rather than increasing purchasing power?

Mr. SCHMIDT. Yes. For 15 years we have had a lot of talk about raising purchasing power. The farmer's capacity to pay is his supply of wheat. Similarly, the worker's purchasing power is what he produces—the end product he creates out of his industry. Money is just a medium of exchange. We have too much money lying around and people are going into some accumulated savings-bank deposits and that adds to the current income. We have had a small budgetary surplus. I think last year we had an addition of $7,000,000,000 to $8,000,000,000 to our money supply, due mostly, I suspect, to private loans that were made.

Senator SPARKMAN. Now, you said the chamber of commerce can do only educational work; that you were even more helpless than we. What can we do?

Mr. SCHMIDT. Well, I think you could certainly issue an educational report on what it takes to make this economy click.

Senator SPARKMAN. Of course. That is the same type of work you do.

Mr. SCHMIDT. But you hit a different market. Your document comes with greater authority than ours does.

Senator SPARKMAN. I was just wondering whether you meant we should put on rationing controls and price ceilings.

I thought it was peacetime economy. You would not recommend that?

Mr. SCHMIDT. Only in dire necessity.

Senator SPARKMAN. I agree with you on that. Is there anything else we can do?

Mr. SCHMIDT. I want to commend Senator Taft for the report for the Labor and Education Committee issued several months ago in answering some of the statistical errors of Mr. Philip Murray.

Senator MYERS. It occurs to me, however, that prices have gone up without that report.

Mr. SCHMIDT. They might have gone higher without it.

Senator SPARKMAN. With reference to the settlement between the steel industry and the miners, I believe you regard that as inflationary?

Mr. SCHMIDT. I think so.

Senator SPARKMAN. You think it will have an inflationary effect on the prices of coal and steel and the products that use coal in the process of manufacture?

Mr. SCHMIDT. I think so, or at least it will postpone any reduction in steel prices.

Senator SPARKMAN. Now you somewhat justify the action in signing the contract, because otherwise it would have resulted in a complete shut-down. I wonder what your comment is as to why they did not invoke the new Taft-Hartley Act?

Mr. SCHMIDT. Senator Taft is not here. I do not know why.

Senator SPARKMAN. We are told by the commentators that the agreement very carefully excluded that act.

Mr. SCHMIDT. I think neither management nor labor want to use the act any more than necessary, but I think you can purchase peace at too high a price.

Senator SPARKMAN. You are not saying it was done in this case?

Mr. SCHMIDT. I have not studied the full effects. I am not sure of all of the implications, but if I had been at the other end of the bargaining table I would have certainly put up a good deal of resistance before I would put this country through another whirl of wage-price inflation.

I do not know any of the facts. I have not talked to any of the officials on either side of the bargaining table. So, perhaps there was a reason.

Senator SPARKMAN. Do you think the action on the part of both parties to the contract in excluding the contract from the terms of the Taft-Hartley law was good policy generally?

Mr. SCHMIDT. No.

Senator SPARKMAN. Do you advocate management taking that attitude generally?

Mr. SCHMIDT. No. I mean we should not rely upon Government force. In my book the Government should stick pretty close to making the rules of the game. So long as the Federal Government is in this picture, I am very skeptical about the Federal Government being able to wrestle successfully with this.

Senator SPARKMAN. That is under the Taft-Hartley Act?

Mr. SCHMIDT. Yes.

Senator SPARKMAN. Or any other legislation.

Mr. SCHMIDT. Yes.

Senator SPARKMAN. That is all.

Senator WATKINS. Senator Myers?

Senator MYERS. I am sorry I was delayed at another committee meeting and did not have the advantage of Mr. Schmidt's testimony.

A moment ago I understood Mr. Schmidt to say purchasing power was not important but the goods one produces is important. You mentioned wheat. I believe it is the price the farmer secures. His purchasing power is the price he secures for his wheat.

Mr. SCHMIDT. That is true. Everybody's income is a cost to somebody else. I think that is a thought you ought to explore and develop. So often we just think of money as income, but my income is a cost to somebody. Your income is a cost to somebody, and you cannot create higher prices for wheat without that costing somebody, and in a free American economy in which there is this freedom of entry, there is a constant process of adaptation and adjustment going on. If wheat is underpriced there is a tendency to cut out the wheat and go to something else.

Senator MYERS. That is a fine general principle but it is extremely difficult to apply it. It is not easy for farmers to abandon one line and immediately plant for an entirely different crop.

Mr. SCHMIDT. There are always farmers, as we say in economics, on the margin.

Senator MYERS. Of course.

Mr. SCHMIDT. In Minnesota we have a large number of farmers and it is a close choice every year for some of them whether they are going to raise wheat. It is that group that is on the margin that should shut out the wheat. That would then adjust the supply in the long run.

Senator MYERS. But purchasing power is important.

Mr. SCHMIDT. To the individual it is important.

Senator MYERS. It is important to the housewife to know how much she can purchase each Saturday from the wages brought home.

Mr. SCHMIDT. Yes, but back of those wages must be the productivity.

Senator MYERS. I am not raising that question. We have had witnesses who I thought gave us a rather bright picture of productivity. I wonder if you have touched upon the relief situation, whether or not the high price of food might be to some extent caused by our relief program?

Mr. SCHMIDT. Yes. There is no question about it.

Senator MYERS. Have you touched upon that?

Mr. SCHMIDT. No, I did not go into that. I have seen some figures on the millions of tons shipped abroad.

Senator MYERS. Do you not think there is a lot of speculation in that too? I can remember when former President Hoover came home from abroad and told us of the hunger over there, and told us what we would have to do that wheat immediately skyrocketed.

Mr. SCHMIDT. I would have to know more about the facts before I go along. I think what always happens is the smart boys move in ahead of the rest of us so the price moves up a little ahead of what it would, but it would have moved up to that point anyhow. I do not think that the speculators have any effect in the long run on prices.

Senator MYERS. I think it is a fact that shortly after former President Hoover came back wheat skyrocketed. It seems to me to be very reprehensible that when people are starving and need wheat, that anyone should take advantage of that situation.

Mr. SCHMIDT. If your demand exceeds supply, it occurs.

Senator MYERS. We had information that about 7 percent of our total agricultural products are exported in this relief program. Some items are only 1 or 2 percent of our production. Yet those prices have skyrocketed too. We are sending little meat abroad. Yet meat has gone up and up, and I am wondering if the increase in the price of foodstuffs is occasioned, if at all, by our relief program, and if it is occasioned to some extent, how much?

It is easy to talk about high prices but much more difficult to find a remedy for them. If the people in the market place are not looking for or finding a remedy I am wondering what we in the committee could do to find a remedy.

Mr. SCHMIDT. The whole world is hungry for capital. The whole world is a victim of monetary inflation that gives tremendous purchasing power in dollars and marks. I do not think there is any escape from high prices.

That figure you gave of 7 percent is not a very good figure. Some things we do not export at all, so the exports are concentrated on some items more than others.

Senator MYERS. We have the entire list of exports. But, following your thought, I agree it would be much better to reduce prices rather than increase wages. It is quite understandable, just as you say, in a short-supply situation prices will continue to rise, so with increased prices the workmen will continually demand higher wages.

Mr. SCHMIDT. These demands are in part generated by boys going around earning their living generating demands. The demands do not generally come from the workers themselves but somebody making a speech. I think one thing you have got to do, and I do not know whether this is proper, but I think the Bureau of Labor Statistics when publishing prices instead of going back to 1945 they should take a longer base so the worker could see he is still 25 percent better off than before the war, and probably 50 percent better off. Every time prices move up it sets labor on fire.

Labor in this country has made tremendous gains in real income. The cost of living is still way down. For instance, at VJ-day the cost-of-living index—and I use the word "index"—the cost-of-living index was only 6 points above 1929, whereas the hourly earnings were 81 percent above 1929, and yet we had this mass movement and mass hysteria to lift wages.

Senator MYERS. A year ago Congress was told if we would lift controls——

Mr. SCHMIDT. We never——

Senator MYERS (interposing). And everything would work out, the law of supply and demand would begin working and everything would be lovely. If we were all thinking as you do, Mr. Schmidt, 140,000,000 Americans thinking as you do, it would work out. Unfortunately, people are not made that way. None of us know the answer, but I wish all industry would think as Mr. McCormick does. He told this committee "Any price is too high if it can be reduced." The automobile people for instance——

Mr. SCHMIDT. They are in double trouble because they have been holding their prices down.

Senator MYERS. I am not so critical of industry.

Mr. SCHMIDT. In the free market a four-door Chevrolet car is selling at $2,100 but the General Motors price is $1,300.

Senator MYERS. I think that is the fault of the distributor and retailer of the automobile.

Mr. SCHMIDT. But you immediately generate the fly-by-night black or gray market operator.

Senator MYERS. I mean a legitimate dealer gets a magnificent price for used cars. He is also getting his 24 percent on the manufacturer's price just as he got the 24 percent when a Chevrolet brought a retail price of $800 or $900. He is doing all right. There should be some voluntary work done in that field to reduce the price of an automobile to the purchasr.

Mr. SCHMIDT. I am not sure whether that would help, but suppose I bought my car at less than market, then I would have an extra hundred or two hundred dollars to buy more butter and drive the price up there.

Senator MYERS. I was rather surprised at your statement of excessive purchasing power because I believe in the months of April and May there was more cashing in of the E bonds, which are the bonds that the working people bought, than at any other time.

Mr. SCHMIDT. That does not prove anything. He was told to do that. He was told to buy them during the war and spend them after the war.

Senator MYERS. I think he would save those bonds if he did not have to cash them in.

Mr. SCHMIDT. Not necessarily. Thrift is a matter of habit, and they do not——

Senator MYERS. A man does not go into his savings unless he has to do so.

I think it is very significant that in April and then May there were more E bonds cashed than at any other time. It did not happen before. Why did he not go into the bonds in January?

Mr. SCHMIDT. He could not get what he wanted. Now he can get a car. Perhaps he may get a new house.

Senator MYERS. Well, you just have a different view of that, evidently, but it seems rather significant to me that they are beginning to go into their savings.

Senator FLANDERS. Senator Myers, I have a question right along that line.

Senator MYERS. I think I have just about finished, Senator.

Senator FLANDERS. You spoke of the enormous increase of the money supply. You also mentioned a short time ago that money supply was increased by private borrowing, largely by industrial borrowing, as I remember.

Now who in time owns that money supply? Is it owned by disembodied people who are neither investors nor consumers? Is it in the hands of—well, who does own it, and if they own it why is not the supply of money available for purchase of everything under the sun? Why does anybody have to borrow? Why does anybody have to sell bonds, or why does anybody have to do anything?

It strikes me as being queer that at the time we have this enormous supply of money it is necessary to be borrowing. Who owns it?

Mr. SCHMIDT. The answer to borrowing is you have a differential rate of expansion and differential quantities of ownership of liquid assets. Say if General Foods has a moderate proportion of liquid assets and is engaged in an expansion program, it may have to go to the bank. Who owns the assets? We have had some studies made by Federal Reserve which were not complete. They just went into bonds and deposits in banks, checking and savings accounts, but by and large the general impression one gets is that these liquid assets are very, very broadly owned. Probably agriculture has a somewhat excessive share of ownership in comparison with prewar norms, and business has a large share and certainly people who worked in war industries have a large share.

There are a considerable number of workers who are nonhabitual savers. If a person comes into large earnings he will not necessarily save a part of that increased income. He will live up to the income. I do not think it is necessarily a matter of these people cashing in E bonds being forced to do so. I think it is a matter of not wanting to hold a liquid asset at 2 percent. Why hold a liquid asset at 2 percent if you can get enjoyment out of a new car?

I do not have the statistics with me, but there have been some studies made. I do not have the figures in mind.

Senator FLANDERS. I did not want to interrupt you, Senator Myers.

Senator MYERS. Go ahead, Senator.

Senator FLANDERS. I have one other question I would like to ask. It has been a matter of discussion with the staff.

What effect will there be on inflationary forces if we pay now, or soon, the bonds given to the soldiers for their accumulated leave? How serious will that be, or what will it be in your opinion?

We are not saying anything about the justness of it, but just its effect.

Mr. SCHMIDT. If taxes were raised to pay those bonds it would simply constitute a shift in purchasing power.

Senator FLANDERS. The Republican Party is committed to tax reduction.

Mr. SCHMIDT. But if it means borrowing from the bank it means further inflation.

Senator SPARKMAN. May I interject the thought there that the Republican Party is committed to both. Do they jibe?

Mr. SCHMIDT. You would not say Republicans are inconsistent. They must jibe.

Senator MYERS. That would probably answer a question that could be propounded as to the witness' politics.

Mr. SCHMIDT. I have none.

Senator WATKINS. Any further questions?

Senator SPARKMAN. I have been very much interested in the appendix you filed with the committee.

Mr. SCHMIDT. Yes.

Senator SPARKMAN. And in those charts that you attach you recall to our members quite vividly the economic collapse that took place after the First World War, and you show a surprising parallel so far following the end of this recent war.

Now, I notice you tell us not to be too greatly alarmed by that, but you give this reason for it, that after the First World War we came into a peace period, whereas now we are operating on a quasi-war footing.

Are we to understand that this quasi-war footing is simply going to delay that inevitable dip, or is it going to serve to flatten it out?

Mr. SCHMIDT. I do not think we have found a cure for the business cycle. That is one reason this committee exists, and what business activity and employment will be no one can predict, not even Dr. Hardy.

We believe business has become wiser and we believe that labor has, too. We are not sure, but we have developed a program which we have offered for the record, which we think constitutes the essential features of a depression-fighting program, and one of the crucial things necessary for preventing a depression is willingness to change. If people are to hold on rigidly, the whole economy sort of rigidifies and becomes inflexible and unadaptable to changing circumstances.

We have developed a new term to explain what has happened in the last year and a half. The words "rotation adjustment." First, the fur industry collapsed. Now it has made its adjustments. The jewelry industry collapsed and has made its adjustments. We think if businessmen could be more adaptable in their price policy, sales policy, and the banking system, supporting a stable economy instead of feeding a boom—we think we have a rationale for stable economy, but we are not too optimistic as to our ability to put it in effect, but we expect great help from this committee in giving advice, and we will do what we can do.

Senator WATKINS. The idea occurred to me. On page 9 of your statement you state:

> The committee members should ask themselves from time to time—

and then you list several questions. Since the committee is seeking this information I suggest we turn it around and ask you.

Let us take the first one. Can you expand on it?

Mr. SCHMIDT. I think there are two important things. One is the inability to achieve a world of peace and without peace there cannot be economic stability, and it appears that our Government is now undergoing a major transformation in its attitude toward peace. Very fundamentally, perhaps, we are developing a basic realization, rather late, that the problem of working with the USSR is probably insurmountable. We should have known that if we studied the Marxist literature, but for some reason which is explained in part in our three reports on communism, which have had a circulation of a million copies, our Government was very tardy in recognizing the true nature of the Soviet Union.

We hired a Russian expert in 1944. He was in my department. One morning he came into my office and said, "Here is a list of the men who will take over Austria when Russia enters Austria." I said, "What do you mean?" He said, "These are the men now in Moscow being trained to take over Austria." I said "How are they?" He said, "They are Austrians who are doing newspaper work, communications work, and drawing a good pay but they are being trained in the art of sabotage of communications and so on."

He said similarly Russia has a committee for every nation in the world, Korea, Spain, and so on. These people are being highly trained to do a job. Sure enough, when Austria was taken over by the USSR it was those 8 or 10 people who were put in key positions, one in charge of communications, one in charge of newspaper work and so on.

We knew immediately when those analyses were made it would be very difficult to get along with the USSR, because we knew what they planned to accomplish.

Now our Government in the last month has come to realize that. That is the fundamental thing facing this committee. What are the implications?

Senator MYERS. You unfortunately do not have a list of those who might take over the United States, do you?

Mr. SCHMIDT. We have that list too.

Senator WATKINS. Did you mean Austria or Hungary?

Mr. SCHMIDT. Austria; I just used Austria as an illustration. The same thing is true for China, Korea, or any other country.

Our Government was under the impression that Stalin having been attacked like we were, after the war that the Soviet would climb back into its orbit. It is one of the greatest mistakes we have made in history. We are paying dearly for it. I do not see any short way of getting out of that particular mess.

The second problem we face is what we call the dynamism of the labor movement in this country.

Senator WATKINS. I did not get that.

Mr. SCHMIDT. The dynamism of the labor movement. Even before the New Deal came into power we tried to strengthen the hand of labor through the Norris-LaGuardia Act, we have talked so long about raising purchasing power that almost anything goes in the labor movement so long as it proposes to raise the purchasing power of a given individual laborer or a given union, and it will take quite some years to reeducate the public to the true nature of purchasing power. Whether we will ever accomplish it, I do not know.

I think those are the two major issues that face us.

Senator MYERS. Do you believe we are pursuing the proper policy with regard to the Soviet Union now?

Mr. SCHMIDT. We have a special committee working on that.

Senator MYERS. Take the Greek-Turkish loan. Do you not believe that was proper and necessary to prevent the advance of communism? Are you in the chamber of commerce sympathetic with that policy of our Government?

Mr. SCHMIDT. We have no policy on it.

Senator MYERS. The Marshall plan?

Mr. SCHMIDT. We have no position on it. It is too vague.

Senator MYERS. Generally it is directed toward preventing the march of communism into western Europe.

In general do you think our Government is on the right track and that some of the things we are now doing are the proper things?

Mr. SCHMIDT. Yes. The Soviet expansion has to be understood. There are a lot of delusions about it. A lot of people think poverty causes communism. The most active Communists in this country are exceedingly well fed and well paid. It is a religion, you might say. They are zealots. It is going to win at all cost. It is a kind of morality if it is moral at all. I am not too sure the Government has learned that.

Senator MYERS. Do you not think people who are hungry and homeless are more apt to fall for any political ideology anyone may offer?

Mr. SCHMIDT. Yes; it reduces the threshold of credulity, as some psychologist said, makes people more gullible. That is true.

That is not what causes communism in Europe. This communism is an organized campaign and has the best brains in Europe behind it.

Senator MYERS. Do you think a country with free elections whose people are working and who are comparably well fed is likely to embrace communism?

Mr. SCHMIDT. The point I am making is they do not fall for it. It it put over on them. It is generally conceded the Soviet Union could take over France any time it wants to, not because the French people voted it. Last election the Communists had 28 percent of the vote. That particular group happened to get 28 percent of the vote. There is no case on record where the majority has voted for communism. It acts through a clique that is exceedingly well organized and well disciplined and knows exactly what to do.

Senator MYERS. It must certainly promise something.

Mr. SCHMIDT. They do it by force. I do not know of any country that has ever gone Communist except where it is through the use of force, a revolution, or a coup d'état.

We think simply by sending wheat and flour we can stop communism.

Senator MYERS. Has it not assisted?

Mr. SCHMIDT. A little. If there is a clique of 100 individuals in Austria determined to put over communism they will do it.

Senator MYERS. I think we are going pretty far afield but it has been interesting.

Senator WATKINS. I am very much interested in this "What is it we do not like about present economic phases?" You mentioned two, the foreign situation and labor.

You said you had some comment in mind. I am interested in getting this. I am sure the committee will appreciate it.

Mr. SCHMIDT. I think we probably have enormous distortions in prices in our economy. Some prices have gone up 500 percent, some 50 percent, and some actually lower. Part of that can be explained. I am sure there are all sorts of distortions, and sooner or later you get to the point where the distortion is so great that the products will not clear—A cannot buy the products from B—and I have a feeling the reason we have not had a collapse before this with the inflationary pressure is due to the liquidity of the American people; this sort of pulled the economy along. I do not see how it can continue. We have never had a long period of prosperity without a healthy construction industry. It is said, as the automobile and construction industry goes, so goes the economy. The automobile prices are too low.

Senator WATKINS. The actual price the purchaser pays?

Mr. SCHMIDT. No; the quoted prices are too low, that is the officially quoted prices. I think we will put too much money in automobiles. I cannot prove that. That is the kind of feeling I have of the kind of production in terms of prewar norms. I do not know that anybody can do much about the distortions, but in general that was what finally caused the collapse of the whole economy.

Senator WATKINS. I would like to come to the next one: Can the Government really do something about this? That is the thing we are searching for. That is the thing we want to know. Have you any suggestions?

Mr. SCHMIDT. I do not think there is an awful lot the Government can do about these things except through monetary and fiscal policy, but those are what we call "blunt instrument" remedies.

Senator WATKINS. What about the President's drive to bring down prices? Is there anything the Government can do?

Mr. SCHMIDT. No; you cannot greatly talk prices up, and I do not think you can talk them down. You can influence people to some extent.

Senator WATKINS. Has there been any result from the President's appeal for low prices?

Mr. SCHMIDT. I do not think so. It may have moderated some price increases. That deals with symptoms. Prices are symptoms of the fundamental supply-and-demand conditions. If you want to depress the price you have to work through the supply-and-demand situation.

Senator WATKINS. To continue with No. 4:

Is it possible to determine in advance the short-run, the long-run, and the intermediate-run implications of this or that projected policy?

Mr. SCHMIDT. Well, I do not think it is ever possible to do a complete job. Even among the most impartial type of economists you will get some differences of opinion as to what results will flow. To use an illustration on the previous page:

A low interest rate saves the Government some debt charges; but it may cause excessive demand for capital and discourage thrift, under certain circumstances. It may help create an old-age problem for the Government by driving down earnings from savings.

That is the kind of thing we are trying to suggest. What you really have to do is look ahead a year, 5 years, or 10 years and say what are the implications of this remedy. That is——

Senator MYERS (interposing). I surmise that you cover the tax situation in your statement?

Mr. SCHMIDT. No; we do not say much about it. My general conclusion was if we are headed for a depression tax reduction might be advisable.

Senator MYERS. We are confronted with that problem now of passing the tax bill. What is your viewpoint?

Mr. SCHMIDT. I cannot speak for the Chamber of Commerce. Since you asked for my personal belief, I think if we are headed for an inflationary period a tax reduction certainly would not help.

Senator MYERS. Do you think we are headed for inflation?

Mr. SCHMIDT. That is my personal opinion.

Senator WATKINS. Was that view caused largely by recent events in the coal miners' situation?

Mr. SCHMIDT. It is a series of events, the Marshall program, the coal-mining situation, the general situation of prices. Government economists have revised their judgment.

Senator WATKINS. Are you the economist that said we would have a depression in 1947?

Mr. SCHMIDT. No, sir. I made a speech in Chicago and tried to show the opposite.

Senator WATKINS. I am trying to find out who they are.

Mr. SCHMIDT. I can give you some names.

Senator WATKINS. Thank you very much.

We will recess now until tomorrow morning at 10 o'clock.

(Whereupon, at 12:50 p. m., the committee adjourned until 10 a. m., Thursday, July 10, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

THURSDAY, JULY 10, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to call, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, and Watkins; and Representative Huber.

Also present: Staff members, Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Our first witness is Dr. B. C. Forbes, publisher of Forbes Magazine and president of the Investors League, Inc. Will you come forward, Dr. Forbes?

STATEMENT OF DR. B. C. FORBES, PUBLISHER OF FORBES MAGAZINE AND PRESIDENT OF THE INVESTORS LEAGUE, INC.

Dr. FORBES. I am B. C. Forbes, publisher of Forbes Magazine and president of the Investors League, Inc., which has members, mostly small stockholders, in every State of the Union.

America's greatest need, material need, is the one least recognized—economic education.

Had we not been so deplorably a nation of economic illiterates, we would not have suffered all we have suffered during the last two-three decades, would not be so sorely beset by strife and difficulties today.

Overweaning high finance and big-business magnates exercised shocking economic judgment in the first third of this century. The American people, acting through their Government, brought these cavalier buccaneers to their senses, unhorsed them.

Since then there has sprung up another type of aspiring dictators who are are exercising equally faulty economic judgment—union leaders. The American people, through their Government, are now wrestling with the problem of bringing them to their senses, depriving them of their power to wreak and wreck our economic well being. I have faith that the American people will prove able to deal effectively with this menace.

American industry, American finance, American business have failed unconscionably to promulgate A-B-C economic education, to develop sound understanding throughout our population.

Organized labor has done a much better, more forceful, more comprehensive job in promulgating its tenets.

Whereas labor union leaders have built up enormously powerful organizations, wielding something savoring of political dictatorialness, the many millions of those who made possible employment of workers have been woefully unorganized, woefully without influence, woefully without leaders to safeguard their interests when jeopardized by organized workers.

This grave difficulty in our economy should be remedied?

How?

I am president of the Investors League. But I must confess that we have received short-sightedly little support from those who should be foremost in developing a strong organization of investors. America urgently needs such a megaphone to enable the voice of job providers, investors, to be heard as loudly as the voice of organized labor, the beneficiary of the jobs furnished by the savings of these thrifty millions of individuals and families.

Corporations should make possible the organizing of their own stockholders, so that when crucial problems affecting them, in labor, taxation, or other legislation, and so forth, confront managements, they could bring the real owners of business concerns into the picture and utilize their far-flung, legitimate influence in striving for equitable treatment.

It is encouraging to note—is it a sign of the times?—that following the passing of a resolution at its last annual meeting, the Pennsylvania Railroad has appointed a committee of stockholders to work with the management on labor and Government matters affecting the owners, the stockholders.

May I interpolate that when we of the league have sought to invite Federal legislators to give thought to the forgotten man, the investor, we have received the most respectful hearing, consideration, from an increasing number of Senators and Representatives, including, may I add, the chairman of this committee, Senator Taft?

In waging a Nation-wide campaign of economic education, companies should devote a part of their advertising for furtherance of this essential cause.

To promote better understanding, corporations should hold annual meetings of employees, preferably around the time they hold their annual stockholders' meetings. These meetings should be held in various plants.

To bring about a more friendly relationship, companies should hold open house at their plants once a year for the wives and families of employees and for the local community.

Incidentally, as a member of the board of education in my home town, I discovered that certain of the textbooks being used in the schools were insidiously communistic, and I succeeded in having what I regarded as the worst of them, the Rugg books, thrown out of numbers of schools in different parts of the country.

The spread of economic enlightenment is necessary to convince the public, and especially labor, that unless industry earns healthy profits, economic health cannot be enjoyed by the people, including wage earners.

You gentlemen of Congress should encourage saving and investing, the very lifeblood of an expanding free-enterprise economy. Don't ever forget that it takes some $7,000 of capital to provide the average job.

You should persistently insist upon cutting Government costs.

You should curb inflating our already astronomical Federal debt by refusing to sanction further wholesale expansion of Government competition against investor-owned enterprise.

Taxation, I think we all realize, needs overhauling. It should be possible to lower taxes substantially and at the same time to reduce our public debt. Double taxation of stockholders should be abolished forthwith.

Investigating conditions in Britain last year, I was depressed most of all by the slump in production per worker. In many, many plants, the wage earners quit each week as soon as their wages reached the tax-exempt maximum, preferring to spend as many as 3 or even 4 days weekly in idleness.

We have need here to drive home to every class that maximum production alone can bring maximum prosperity, that "featherbedding" is in very truth suicidal.

Featherbedding has no place whatsoever in a nation of economic literates. If this one truth alone could be universally brought home, the result would compensate a thousandfold for whatever the effort might cost in thought, time, money.

One momentous problem, as I see it, facing industry, and which will by and by face you gentlemen of Congress, is the looming demand for a so-called guaranteed annual wage. The handwriting is already appearing on the wall. It deserves far more intense study than it has yet received.

You have heard from others much abler than I views concerning our business outlook. My humble opinion is that, while considerable readjustments are inescapable, we should not be headed for any serious recession, certainly no depression. If we do draw upon our heads anything like acute depression, it will be entirely man-made, inexcusable.

The action taken by you gentlemen of Congress on taxation and on labor legislation is most encouraging to thoughtful citizens.

By all means, let us take a national inventory.

By all means, let us ponder how far we can go in succoring war-devastated European countries. We should go to the very feasible limit in recognizing that "we are our brother's keeper." But the worst disservice America could render the world, and itself, would be to bankrupt itself.

May I offer one final suggestion?

The Government has assumed such gigantic responsibilities, has entered so critically and vitally into fundamental phases of our economy, that, in order to attract for the highest offices men of the highest caliber and experience, I would advocate the payment of much higher salaries for top-notch Federal officeholders.

You gentlemen are now running "the biggest business on earth." Why should not those at and near the top be paid salaries at least somewhat commensurate with the salaries paid by our largest businesses—to say nothing of the emoluments enjoyed by some labor leaders.

We want fewer but better public servants. We should be willing to pay enough to enlist them.

May I add one word, Senator Taft?

The CHAIRMAN. Surely. Add whatever you desire to emphasize.

Dr. FORBES. I said here that I felt confident that Congress and the people would be able to bring to their senses some of the labor leaders, who in my opinion, have been riding a very high horse.

When the Taft-Hartley bill was passed, I, in common with most other citizens who try to think seriously, was tremendously gratified. But yesterday morning when one read the newspapers and learned the kind of deal made between John L. Lewis and the coal-mine owners I was positively shocked.

I started writing 30 or 40 years ago, condemning the coal industry as one of the very worst run in America. The wages paid were deplorably low. The housing conditions in most coal-mining communities were beyond condemnation.

The coal industry has brought upon itself, as I see it, the trouble that it has since suffered.

I for one do not quarrel at all with the increase in wages agreed to by the coal industry, coal-mine owners. As a matter of fact, while I was in Britain last year the Government, the Fuel Administration, was sending out a delegation of officials to different large cities, and I happened to be in Glasgow when they held a session there. They invited everybody that wanted a job, and particularly those who were unemployed, to come and listen. In Glasgow that day—and that city, after all, is the biggest city in Scotland—not one man was enrolled by the coal-mining industry, not one man. One by one they walked out.

I do not know that one could blame them. The coal-mining conditions there down in the pits are terrible. Here they are much better. Building tradesmen, for example here, get $20 a day. I talked the other day to the owner of a gas station who was enlarging his station. He said: "You see these ironworkers? I am paying them $22 a day for a 7-hour day. I tried to get masons to lay cinder bricks. All I could get out of the union was one colored mason, and he told me he was supposed to lay only 85 cinder bricks a day, but," he added, "he is good and lays more than twice that amount."

What I am trying to bring out is that $13 a day for coal miners may not be too much. I do not presume to be able to pass on that phase of the deal.

But strictly as a layman—I am not a lawyer—some of the provisions in the new coal contract strike me as if Lewis and the mine owners had entered into—I do not believe the word "conspiracy" is too strong, to nullify and thumb their nose at the new Taft-Hartley bill.

The CHAIRMAN. I do not agree. The whole theory of the bill is the employer and employee should be able to make contracts as they wish to make them. It is based on free collective bargaining as we have said throughout.

Whatever the employer and employee agree to pay is all right with me. I do not think the bill would do anything except affect the welfare fund.

I do not believe the bill attempts to say what kind of contract they shall make. They can make any kind they want. I do not think it is in any way violating the law.

Dr. FORBES. I am delighted, Senator Taft, to hear you say that; because you know all about it, and I am only an outsider looking in. But it certainly impressed me you had passed certain legislation to bring about certain conditions, and yet the very first important contract made since the advent of this new bill evidently devised ways and means to get around the bill.

That is my humble opinion.

The CHAIRMAN. I do not know of any provision of the bill they attempted to get around. I think the mine owners made a very liberal contract. It may not be wise from their standpoint and not perhaps from the public standpoint. Both sides have perhaps had the wrong idea; but the idea is that the labor relations should be based on collective bargaining in which the parties deal across the table and make the contract they wish to make, with a single limitation on the closed shop and the type of welfare fund.

Dr. FORBES. Well, I repeat I am delighted to get your assurance.

The CHAIRMAN. Whether that is a wise thing economically, I do not know. I do not know what you think of it, whether you think it is an inflationary measure which is going to start the spiral still more. That is the question we are involved with here.

Dr. FORBES. Of course it will have that very distinct tendency. But to my mind that is not half as serious as what I interpreted as a device to practically nullify the law which the people have been clamoring for to make unions responsible. And as I read the newspapers, including observations attributed to John L. Lewis, the union feels it got the better of Congress by the kind of terms it made.

The CHAIRMAN. First they set up an imaginary idea of what Congress is doing. They misrepresent the law, and it is very easy to say they are evading provisions that were never in the law.

He is free to get the best contract he could get as far as we are concerned. We are not attempting to limit wages.

I might make a contract to sell wheat, and I may say if I cannot sell it, I shall not be liable to damage. The employers may be willing to sign that type of contract. They might object to signing that kind of contract and complain it is an unfair labor practice if they wish to, but if they do not wish to, it is all right.

Dr. FORBES. Again I say, as a layman, I read into the bills apparently utterly mistaken ideas. I thought it was the intent of Congress to make unions responsible hereafter, and according to what I read, remarks attributed to Lewis, he has gotten completely around that.

The CHAIRMAN. He has not done that. He has complied with the shop agreement. He has provided for the kind of check-off which we require. There are a great many things in the contract that are a direct effort to comply with the law. The mere fact that he provides that the United Mine Workers shall not be responsible for money they did not pay themselves, and somebody else does, is perfectly reasonable to any businessman. Whether that kind of contract is going to be general is very doubtful, because the employers did not have to sign it. They can well say this contract is not the kind of contract that we want and it is an unfair labor practice to insist on it, and they can then say you have no right under the Wagner Act to strike, and we can fire anybody we want to. There are a lot of results that may happen from this kind of thing, but as far as the freedom of the employer and the labor union to make any contract they desire, they can do so. It is only limited in certain very minor respects. That must be the basis of labor relations, as I see it, unless the Government is going to try to run the whole show.

Dr. FORBES. I think the popular impression has been that this new labor law would be a measure to put a stop to certain practices that have brought about the action by Congress to try to correct labor legislation, and the impression I think that will be generally deduced from this new contract—including the exultation of the union leaders themselves—will be that this law is practically impotent.

The CHAIRMAN. No, it is not so. You are assuming a purpose of the law that the law never had. I never intended to interfere with making any contracts they wanted to make, except with respect to the union shop and welfare fund.

Our interest in this case is not to protect employers but individual workmen in both cases. To that extent that limited their contract because the union is attempting to speak for men without protecting their interests. Otherwise there is complete freedom. You can make any deal for buying wheat. You can pay too much. You can make a contract that relieves you from all liability if you do not perform your job. This is to put labor and industry in the position of all business. Whether that is the right kind of contract, I do not know, because they have no responsibility and neither will they have rights under the law in the long run.

Dr. FORBES. It is not a question for Congress to determine whether the union shall be held legally responsible?

The CHAIRMAN. Of course they are legally responsible. It is not up to Congress to write the contract, which we do not want to do.

Thank you, Dr. Forbes.

Dr. FORBES. Thank you, Mr. Chairman.

The CHAIRMAN. Next is Mr. Theodore W. Schultz, trustee of the National Planning Association and member NPA agriculture committee on national policy and NPA committee on international policy.

STATEMENT OF THEODORE W. SCHULTZ, TRUSTEE, NATIONAL PLANNING ASSOCIATION AND MEMBER, NPA AGRICULTURE COMMITTEE ON NATIONAL POLICY AND NPA COMMITTEE ON INTERNATIONAL POLICY

Mr. SCHULTZ. Let me bypass further identification unless you desire some amplification.

My statement is directed to the problem of pricing in agriculture. I am dividing my comments into these three parts: (1) The present emergency with regard to food, (2) the transition that still lies ahead, and (3) the longer pull of posttransition.

With regard to the existing emergency it is obvious that the production and distribution of food in the world is still very badly organized; the recovery and rehabilitation in food and agriculture has occurred slowly; and farm surpluses and low farm prices have not returned as quickly as was generally expected nor as soon as they did following World War I.

We were exceedingly fortunate in not cutting back on production upon the defeat of Germany, which we came awfully close to doing. We are also fortunate that agriculture has had the fertilizer, tools, and machinery to keep production at the wartime peak. We are now facing our first main adversity in unfavorable weather this spring.

We were, however, ill-prepared to export an extraordinarily large volume of agricultural products, although we have been in a supply position to do so. Unfortunately, we did not anticipate the difficulties of financing, allocating, and transporting so large a volume of foodstuffs. We have muddled through in retrospect rather well.

But this country has not faced up to the price effects of these exports upon the domestic economy already enmeshed in a highly inflationary situation. Instead this Government has pursued at many points a price policy that would have been justified if farm and food prices were low and dropping. The emphasis has been upon price supports and on the abandonment of consumer rationing; as a result much harm has been done.

Partly as a result, the cash farm income has been further inflated, rising 15 percent in 1946 above its wartime peak, and now during the first half of this year is running 30 percent the first 6 months of 1947 above the 1946 level. Meanwhile food prices to consumers have skyrocketed. These price developments have done considerable damage within agriculture and also to the rest of the economy.

The food emergency in the world is not over. We might well ask, Can we afford to continue to ship our food at the rate of over 18,000,000 tons as we did last year and 17,000,000 the year before? In terms of the needs of millions of people in other parts of the world dependent upon us for food and in terms of international political consideration, the answer is clearly we cannot afford to do otherwise. If we do, and as I am sure we will, it behooves us to take steps to lessen the farm-food price inflation.

This is one of the important problems, it seems to me, we are bypassing. I shall say a word or two on that in closing.

Now, on the transition to more normal times, which I said at the outset is still on ahead, we are in a favorable situation in several respects. Unlike industry, when we came out of the war, agricultural production was not distorted seriously. The carry-overs are now very small and they should be built up as soon as there is a chance, and the fact they can be built up does give some leeway in case of a sudden drop in farm prices, and a falling demand may hit agriculture suddenly. The competitive strength of agriculture has been improved during the war and in financial terms agriculture has never been better off.

But even so, there are probably between 3,000,000 to 4,000,000 people in agriculture, largely in the southern half, who are decidedly underemployed, people who need and want job opportunities that have a higher productivity than those they now hold. The war cleaned up a lot of this underemployment in agriculture, but there is still a great deal.

The unfavorable factors in transition are two: One, the rising cost of services that farmers buy for consumption and production. These are rising rapidly in agriculture, including the write-up in land values and taxes. The other is our price policy. If you look ahead and take the longer viewpoint, you will see it is crystal clear that our price policy is wholly inadequate.

Now, No. 3, the posttransition period. There are two unknown factors of major importance confronting us. We do not know how well the industrial-urban economy will perform. It may not be as critically unstable as it was during the interwar years. There is, however, uncertainty enough to warrant being prepared for a large measure of economic instability. Nor can we anticipate the volume and character of the foreign trade after 1948. It may become freer and more settled. This is also beset with a great deal of uncertainty.

Congress has built agricultural price policy on parity with price supports for most farm commodities. It is important that Congress reeaxmine that price policy, because it was designed for depression circumstances of the middle 1930's. It certainly is not suited for the post-Steagall years.

We need to establish a pricing system that will allocate resources efficiently and channel products to users both here and abroad effectively. We have tried to do other things with the pricing system in the last two decades. We are seeking an efficient pricing system—efficient in performing several functions that integrate major economic processes. As policy with regard to farm prices has taken shape, several fairly distinct functions have merged, namely: (1) Prices to guide the allocation of resources in production; (2) prices to channel products into trade both at home and abroad; (3) prices to distribute income from farming over time; and (4) prices to distribute income among persons.

Can a pricing system be efficient in all of these functions at one and the same time? Are we putting altogether too big a burden on the pricing system and thereby weakening it and making it less efficient than it otherwise would be in performing the more limited tasks that are appropriate to its capacity? The answer to the latter question appears to be strongly in the affirmative, both on theoretical grounds and from the lessons taught to us by experience.

It is my belief that prices are not an appropriate means for stabilizing the income from farming over time, and also that they are not suited to lessen the inequality in the personal distribution of incomes. I believe that the main positive role of the pricing system is to guide production and to channel products in the trade for domestic and foreign use.

Given the existing state of our political economy, chiefly the prevailing attitudes toward economic policy, the nature and capacity of economic institutions, and type of development that characterizes our economy, it is my belief that the pricing system on which agriculture depends will not be permitted either politically or institutionally to perform its production and marketing functions efficiently, unless ways and means are first found (1) to make the flow of farm income much steadier than it has been from one year to another, and (2) to reduce substantially the inequality in income among families. The first of these is, politically, much the more urgent of the two.

Obviously we have come out of the interwar period and the late war with a price policy for agriculture designed primarily to attain the objective of stabilizing farm incomes over time.

I would like to talk to you briefly about what is on page 6 of my statement which summarizes my recommendations.

The principal policy objectives in this sphere should be to develop an efficient pricing system—efficient in performing two major functions: that of guiding allocative decisions in agricultural production, and that of channeling farm products to consumers.

Now, as I have just said, it should not undertake the other two functions whcih have been loaded on it, particularly the one of distributing income over time. To place this burden on the pricing system, as has been done in recent years, can only reduce greatly its capacity to perform the two functions for which it is an appropriate means. Improving the personal distribution of income among families, and more especially its distribution over time, needs to be achieved by means other than prices.

Under distinctly unfavorable conditions such as have occurred between World Wars I and II, the pricing system loses its capacity to integrate the relatively long-run production decisions and the comparatively short-run decisions involved in marketing to serve consumers.

To avoid this disintegration of the pricing system the first lines of defense are measures that will counteract business cycles and wars. This is, however, a big order and meanwhile other measures need to be developed to keep the price system from disintegrating under unstable economic conditions.

The formulation indicates that it may prove necessary, under unstable economic conditions, to approach the two functions that are properly the tasks of the pricing system separately, and develop for each appropriate policies and institutions on the one hand to guide the allocative process in agricultural production efficiently by such means as forward pricing and other new institutions to lessen the price uncertainty impinging upon farmers; and on the other hand, to channel farm products into markets at home and abroad by freeing market prices.

With reference to policy modifications after 1948, I am satisfied you will want to continue a policy of price supports for agriculture.

I would hope that you would, however, have the price-support level announced before farmers have made their production plans.

Then, make the announced price support less—somewhere between 15 and 25 percent less—than the expected market price at full employment.

Then I would suggest that we permit the market price to rise above and fall below the support price level; that the market price could move up or down and should not be held so it clogs the channels of trade. Those are the recommendations I would make to you as an economist. If you could meet these conditions you would have a system of support price that would do the least harm and might bring considerable income security to agriculture.

Finally, whenever the market price is less than the announced support price, have the Government make up the difference by means of income payments to farmers. These income payments should meet the following conditions: (1) They should be strictly counter-countercyclical in design, (2) they should not induce production decisions in agriculture inconsistent with long-run requirements; and (3) they should not clog the channels of trade.

Is it possible to achieve a revision of parity that will make a system of support prices tied to parity workable? I think you have three basic problems here; namely, (1) the general level of parity, (2) the relationship of the parity of one farm commodity to other farm commodities, and (3) the anticipation of fundamental changes in supply and demand conditions in a developing economy.

The existing parity formula undervalues farm products when the demand is excessive as it is during war, during periods when extraordinary export demand exists, and whenever overemployment arises in industry.

The CHAIRMAN. What difference does that make if you have a demand?

Mr. SCHULTZ. It would not get one into any difficulty in policy if you did not try to move price supports up. We have some products way above the parity level. By and large you are right. It would have no relevancy. It is No. 2 that gets you into difficulty.

In my judgment, the existing parity formula overvalues farm products when the demand is deficient as it is whenever widespread unemployment exists in industry.

The existing parity formula, in my judgment, under conditions of full employment and normal export demands, would overvalue farm products about 10 percent.

The next point is more serious. Obviously it is not the general level of parity that is far out of line under normal conditions, but no one can gainsay the fact that parity, as it now is calculated, greatly overvalues some farm commodities and very substantially undervalues others.

A more recent parity basis, for instance, using 1926–30 or 1935–39, or some other period instead of 1910–14, would correct some of the discrepancies among farm products. But any base, regardless of the period selected, will introduce other discrepancies.

The best possible base would be a recent period when the economy was operating at or near full employment and foreign trade was neither swollen nor depressed. But even such a base, if it were available, would soon become obsolete and inadequate for determining the parity price of one farm commodity relative to other farm commodities.

Some of the more obvious discrepancies inherent in the existing parity formula with regard to specific farm commodities can be eliminated. The main corrective, however, lies in a return to (1) a lower parity for support-price purposes, and (2) a range within which administrative discretion is permitted when parity is applied to a particular farm commodity.

The CHAIRMAN. You referred to exports, but the total exports have not been excessive. The total exports of food is only about 8½ percent of our total food production in terms of tonnage, so a large part of this excess demand must be due to higher wages and higher income domestically?

Mr. SCHULTZ. Yes, sir.

The CHAIRMAN. So can you be sure there is inflation under the present wage and income conditions?

Mr. SCHULTZ. If those conditions are maintained the elasticity of the demand for farm products is such that roughly a 1-percent change in total supply available to the domestic market makes about 5 percent (inverse) difference in price——

The CHAIRMAN (interposing). It seems impossible to me.

Mr. SCHULTZ. I give it simply as the experience we have had since 1910. What I am trying to say is that 5 percent more farm products would probably affect farm prices 25 percent. Let the exports drop equivalent to 5 percent of the aggregate output and you may get this very pronounced drop—say, 5 percent—in farm prices.

The CHAIRMAN. Let me go back to the general proposition. In the first place, why are we interested in farm prices? Is a balance between farm prices and other prices a necessary condition in order to avoid danger of depression? Is that the basis?

Mr. SCHULTZ. Yes.

The CHAIRMAN. Whether it is a depression or no depression.

Mr. SCHULTZ. Once you take that position you worry about the excesses, because they are related to subsequent deficiencies.

If it is true, as I believe, that the very high prices of food are not here to stay—to the extent that they force other prices up and these get fixed, a good deal of harm will be done to the structure of prices for the years ahead.

The CHAIRMAN. You do not suggest any remedy, but do you suggest restriction, or price control at the present moment, or what other action?

Mr. SCHULTZ. In theory we can do something on the supply side. Whether you would be willing to tackle the export end, I do not know. My guess is you can and should not reduce exports in view of the food situation in the world.

The CHAIRMAN. I think Mr. Goss suggested a kind of propaganda, if you please, to encourage the use of things that were excessive and discourage the use of things that were short.

Dr. SCHULTZ. I hope it would have some effect. I am a little skeptical how much food it would save. On the demand side we appear to be completely unwilling to return to consumer rationing and price control.

The CHAIRMAN. Do you not think on the whole rationing is more effective than attempting price control?

Dr. SCHULTZ. That is where I would start. If you cannot do anything about exports, we need to ration American consumption.

There is an approach I hoped agriculture itself would present; that is, if we want Congress to help out when farm prices drop too low during a depression, should not some of the excess farm income go into a kind of fund? It seems reasonable to argue that Congress should take all the income above 120 or 125 percent of parity and have that set apart to pay support prices later on.

The CHAIRMAN. That would be a very difficult thing politically. I would rather fix prices than try to take the money away from them.

Dr. SCHULTZ. I would avoid fixing the market prices, but allow the market to go up and down.

Senator FLANDERS. How would you get around that?

Dr. SCHULTZ. You have the old processing tax. You could use that for this purpose. You would not touch the market. You simply say whenever these products are above 125 percent of parity——

The CHAIRMAN (interposing). I cannot see a farmer selling his corn to a neighbor and paying the tax.

Dr. SCHULTZ. You have certain administrative problems. But, in the main, if we were serious and wanted to for a short period, a rather reasonable job could be done. I know it is a big task.

The CHAIRMAN. The individual farmer would say he would rather take the money and put it in the bank rather than have someone do it for him.

Dr. SCHULTZ. There is something to be said on that point.

The CHAIRMAN. Let me go to the support-price question you advocate. The other day Mr. Goss had somewhat the same general theory that, perhaps, after 1948, the support-price policy should continue, but at a stop-loss level which would be substantially under parity?

Dr. SCHULTZ. Yes.

The CHAIRMAN. And continue their efforts in the meantime to handle surpluses, but at that point there would be a support price, such as you suggest, 5 to 15 percent below parity.

Mr. SCHULTZ. I would lower parity also, certainly for some products.

The CHAIRMAN. No doubt Mr. Goss would raise parity. Your suggestion would be that there be a support price at a figure somewhat lower?

Mr. SCHULTZ. Yes; the Grange is moving to a position not unlike the one I have taken this morning, with the difference they would maintain the price in the market. Where I would differ about it, I would not hold that price in the market. I would let the market clear and make up the difference.

The CHAIRMAN. I think he took more or less the same position the other day. I do not think he differs with you.

Mr. SCHULTZ. I am pleased to hear you say so.

The CHAIRMAN. Do you feel parity should be geared to production cost, wages, or a combination of those costs?

Mr. SCHULTZ. The only test that will stand up is the value of the product, its true value at full employment. If wheat is $1.50 at full employment, I would try to get at that figure. It is actually the demand and supply forces as they test themselves against a full market which indicates the real value of a product.

The CHAIRMAN. Senator Flanders.

Senator FLANDERS. Dr. Schultz, I would like first just to say a word or two about the way it seems to me the food element has been showing up as a primary matter of concern in the spiral of wages, cost of living, prices and so on.

The greatest increase in the cost of living, the major increase has come in food?

Mr. SCHULTZ. That is right.

Senator FLANDERS. It seems to me the point at which to attack, if any attack is possible on the present prospective spiral of inflation, and I must say I was seriously disturbed the other day about the arrangement initiated by the steel companies, which seemed to go far beyond any cost of living, and seemed to introduce a new element in spiraling, but up until the present time it seemed to be in the cost of food. We might be looking at it as a short-range problem, but to the extent that it brings us to a price structure which cannot be maintained, it becomes a longer-range problem also?

Mr. SCHULTZ. That is right.

Senator FLANDERS. Have you any thoughts on this short-range problem of the cost of living and its influence on the inflationary spiral and its relation to the cost of living?

Dr. SCHULTZ. I agree fully with what you say, Senator Flanders. It is very striking how the food price situation is affecting people. They feel it. It is genuine. A year or two hence food will come down and the high rates of pay induced in part by the high food cost will stick.

There is no easy way out unless we are willing to ration and thus bring down the price of food.

The other is a possibility which is unpalatable to the extreme, and that is to take every agricultural product above 120 or 125 of parity and pay a consumer bonus.

The problem is serious. We ought to face up to the problem, and as unpopular as consumer rationing seems to be politically, it ought to get a hearing and a discussion to see whether or not at some strategic points rationing can be undertaken.

Senator FLANDERS. What is your expectation that the shortage in feed grain will have? Will it be serious so far as the general cost of food is concerned?

As I see it, feed grain is common to all food except fish, vegetables, and fruits.

Dr. SCHULTZ. Yes, the American food products are largely feed via animal products.

Senator FLANDERS. Do you think there will be a serious result?

Dr. SCHULTZ. It is obviously a guess. You are going to have your crop report for July today. I think it is clear now that the chances of coming through with a crop like we had each of the last 2 or 3 years is very remote. I do not see how we can come out next fall without an exceptional break in the weather, but with 300,000,000 to 500,000,000 bushels less corn.

The CHAIRMAN. You would have about 350,000,000 more bushels of wheat?

Dr. SCHULTZ. Yes. There is some compensation there. The wheat crop is in, by and large, and you get some compensation at that point, but if we draw heavily on wheat for export, it again comes back to affect the feed supply. If we continue to export—as we should—and get a small feed crop, the next 12 months may continue very tight.

Senator FLANDERS. You have been the only witness that I have heard who has been thoroughly clear on the point that farm prices would go off within a comparatively short time.

Is that based on your expectation that we will not be exporting as much abroad as we have been doing in the last year or so?

Dr. SCHULTZ. Yes. It is based on the premise our exports are swollen, and as the world recovers its agriculture the demand on us will become less and less, and by and large our agricultural production is growing and will probably go on up, and it seems to me we are headed for, and this is not to be viewed with alarm, a related price change of some 30 percent. Instead of parity at 120, we ought to set our mind to thinking of 90 percent as normal. That is the substance of it.

Senator FLANDERS. I had some conversation with a gentleman connected with the grain trade recently. He contended that prices are higher than they ought to be, and believed that the higher prices have gone to speculators rather than farmers.

Have you any thoughts about that?

Dr. SCHULTZ. Yes. I wish that could be looked into on an unbiased basis. I have not had occasion to look into it thoroughly.

My observations are: Had we not had the export-import controls and allocation, wheat would probably have gone to $4.50 and higher. Nevertheless the timing of the buying has introduced some erratic elements. We were not prepared for the handling of this large volume of exports on Government accounts.

The transportation thing got us into serious difficulty. The flow at different times was very thin. If the longs called for their contract in Chicago the local supplies were exceedingly small. How it could have been avoided, I do not know. I would have to look into it much more than I have had a chance to.

Senator FLANDERS. On my first question about how these particular remedies would work, you see no problems, except perhaps the difficult one of rationing.

Dr. SCHULTZ. That is the main solution; yes.

Senator FLANDERS. That is all.

The CHAIRMAN. Senator Watkins.

Senator WATKINS. What effect does transportation have on cost?

Dr. SCHULTZ. Do you mean the whole margin of prices, the difference between the price the farmers receives, and all the cost that enters into it?

Senator WATKINS. It was dramatized a short time ago by the American Federation of Labor, and they proposed to put in food cooperatives to bring prices down.

The difference in the price received by the farmer at the farm and the price paid by the consumer cover what?

Dr. SCHULTZ. It is very hard to say in a few words.

Congress has authorized a comprehensive investigation into marketing by the Hope-Flannagan bill.

Two observations by way of hypotheis; one is simply this: The richer people become the more services they want. We can say all we please, but as we get richer we want more than the raw food. We want more and more service attached to food. Sometimes this goes to an extreme, but if consumers want extra services, in the last analysis, they should get them.

That is one aspect. The other: Are our processing industries relatively inefficient in the use of capital and labor? If they are part of it may be due to the instability of the economy. If my guess is right it would mean the whole distribution field could operate at less cost. I suspect, like in southern agriculture, many of the so-called distributing industries may have 25 to 30 percent more manpower than called for, if they too were more efficient. These are guesses. I hope this kind of inquiry may be carried forward under the Hope-Flannagan Act.

Senator WATKINS. The ordinary man looks at the prices the farmers are receiving and has the idea he will pay the same over the counter, but the difference is so wide it seems unreasonable.

As an example, in Utah they were getting 60 cents a crate for celery which they paid 25 cents a bunch for in the store.

Dr. SCHULTZ. This unreasonableness will seem much more apparent when farm prices start to fall.

Margins are at the smallest, percentagewise, when farm prices are high. When prices drop many of these costs will have become established and relatively fixed.

Can our milk prices come down 20 to 23 percent in the Chicago area when farm prices decline?

Senator WATKINS. Based on the cost to the farmer producing the milk can they come down?

Dr. SCHULTZ. The farm price will go down, but consumer prices will not drop accordingly. My guess is that Congress will hear much complaint as soon as farm prices start dropping and retail prices do not come down proportionately.

The CHAIRMAN. Then, in the case of western food you have a haul of 2,000 miles in refrigerated cars.

Dr. SCHULTZ. That is correct. A 20 percent change in price in New York may make a 30, 40, or even a 50 percent change in some farm prices in the West—in Idaho, for instance.

Senator WATKINS. What I had in mind was the difference there in the same locality where the food was produced.

Senator FLANDERS. You say, Senator Watkins, you paid 25 cents for celery in Salt Lake City?

Senator WATKINS. Yes. It is the same all over the country. It seems to indicate there is something wrong with the distribution system. The farmer is losing thousands of dollars for the finest celery in the world. The same is true of apples and other crops. We are having difficulty all along the line. In the poultry field, chickens and turkeys, everybody is paying extremely high prices, and yet the farmers are actually losing money, and the dairymen are getting rid of cattle because they cannot produce on account of the high cost. Yet the other people are complaining because they are paying too much.

I am wondering if agriculture can help us. Otherwise we are going to have consumer cooperatives. I do not know where it is, but it seems the whole country would be very happy to get an answer to the question.

Dr. SCHULTZ. Unfortunately there is no one answer, and that thing is so intricate and complicated that we do well in picking up pieces which add up in terms of improving the marketing situation.

I certainly hope that you and men like Congressman Hope and others will take a broad look at this whole question of what you call the marketing system and have the Hope-Flanagan research pointed toward an efficient marketing system.

You have done a remarkable job in getting the research started. The one danger is they will still look at the unimportant problems and neglect the more important ones.

Senator WATKINS. This committee has in its province the investigation of the national economy.

Dr. SCHULTZ. I am not a person to give you expert testimony on the marketing system.

Senator WATKINS. During the depression crops were being destroyed and people were still hungry all over the country. It seems it was because of the depression, that is, getting the products to the people.

Dr. SCHULTZ. Picking out one specific issue, I think we have to lay the blame to ourselves, and the Government, in the case of potatoes.

Senator WATKINS. That is an example of what I was talking about.

Dr. SCHULTZ. We never should have put ourselves in position where we held the price of potatoes up in the market, but these potatoes should have moved in consumption for whatever they would sell.

Senator FLANDERS. Mr. Chairman, I would just like to clear up one other point in my own mind regarding Dr. Schultz's testimony.

You proposed that prices be set in the long run on each agricultural commodity of importance by careful conclusions and judgment and the support of that price by direct payment to the producer. I take it it is essential to that plan, that the price which is he support price be not too high?

Dr. SCHULTZ. Right.

Senator FLANDERS. Because if it is too high it would tend to destroy the production pattern?

Dr. SCHULTZ. Right.

Senator FLANDERS. It is essential the price be not too high.

Dr. SCHULTZ. As a matter of fact, you ought to get 15 to 25 percent below what would clear the market at full employment. There is no reason why you should take an undue risk. Nevertheless, the farmer has a right to a measure of income security.

You have stated the case very succinctly.

Senator FLANDERS. The plan would naturally be applicable in your thinking to the major commodities. Is it applicable to some of them?

Dr. SCHULTZ. In theory; yes. Whether you carry your application for reasons of necessity beyond that point I do not know. The economics would be as applicable to perishable products as to wheat or cotton. It would not matter, therefore, whether the product is highly perishable or more durable. I can answer your question accordingly only in principle.

The CHAIRMAN. Do you think that we ought to cut down exports from our economic standpoint?

Dr. SCHULTZ. No; the outside world has a problem of——

The CHAIRMAN (interposing). Would you favor the export of farm equipment and fertilizer over the export of food?

Dr. SCHULTZ. A year ago I made a rather careful study of the food situation in India. I have gone over the European countries since the war. The needs of these people are very urgent. They are great.

The CHAIRMAN. My thought was by shipping fertilizer and machinery we could obviate the shipment of food later.

Dr. SCHULTZ. It is important to ship fertilizer but more important that Europe once again produce its own fertilizer as soon as it can be achieved.

It seems to me we have got to look ahead and get a process going in the deficit countries whereby they can take care of themselves and that involves getting fertilizer produced in western Europe and other parts of the world.

The CHAIRMAN. Thank you very much, Dr. Schultz. We appreciate very much your taking the trouble to come.

(The paper submitted by Dr. Schultz follows:)

THE AGRICULTURAL PRICING PROBLEM—THE LONGER VIEW

(A statement by Theodore W. Schultz, trustee of the National Planning Association and member, National Planning Association agriculture committee on national policy, and National Planning Association committee on international policy)

For identification: I am professor of economics and chairman of the department of economics of the University of Chicago.

My research and teaching are primarily in the field of agriculture and food. I made the study, Agriculture in an Unstable Economy, on which the Committee for Economic Development based its policy report on agriculture. I was economic consultant to the Special Committee of the House of Representatives on Post-War Economic Policy and Planning in preparing the report on postwar agricultural policies. I am a trustee of the National Planning Association and a member of its agriculture committee on national policy and of its committee on international policy. Your staff director, Charles O. Hardy, prevailed upon the National Planning Association to ask me to appear before this joint committee. It is a privilege to appear. My statement, however, is made on my responsibility as economist and student of agriculture.

My testimony deals chiefly with the agricultural pricing problem. This problem may conveniently be divided into three stages: (1) The existing posthostility food emergency, (2) the transition to more normal conditions, and (3) the posttransition period. We are still in the first of these three stages in the case of food and agriculture.

1. *The existing food emergency.*—The war and its aftermath seriously disorganized the food economy of the world. Recovery and rehabilitation have been realized much more slowly than was anticipated. Farm surpluses and low farm prices have not returned as quickly as was generally expected nor as soon as they did following World War I.

Fortuntely, the American Government did not take steps to curtail farm production after the defeat of Germany and Japan although it came close to doing so. It has also been our good fortune to have had available substantial amounts of fertilizer, considerable new farm machinery and equipment, and very favorable weather. Agricultural production in the United States has continued at peak wartime levels. The first major adverse development affecting production has been occurring in feed crops this spring.

Although the United States has been in a supply position to export an extraordinarily large volume of agricultural products, it was not prepared for the job. Unfortunately, we did not anticipate the difficulties of financing, allocating, and transporting so large a volume of foodstuffs.

Nor did the Government face up to the price effects of these exports upon the domestic economy already enmeshed in a highly inflationary situation. Instead the Government has pursued at many points a price policy that would have been justified if farm and food prices were low and dropping. The emphasis has been upon price supports and on the abandonment of consumer rationing and as a result much harm has been done. Cash farm income has been further inflated, rising 15 percent (in 1946) above its wartime peak and now running 25 percent higher than it did in 1946. Meanwhile food prices to consumers have skyrocketed. These price developments have been responsible for very considerable damage within agriculture and also to the rest of the economy.

Moreover, the food emergency in the world is not over. Can we, however, afford to continue to ship out food at the rate of over 18 millions of tons annually as we did last year? In terms of the food needs of millions of people dependent upon us and in terms of international political considerations the answer is, I believe, clear. We cannot afford to do otherwise. If we do, and I am sure we will, it behooves us to take steps to lessen the farm-food price inflation.

2. *The transition to more normal conditions.*—The economic transition of agriculture from war to peace has been delayed by the food emergency to date.

Several favorable factors should be noted bearing on the transition when it comes (likely to occur during the next 2 years). The production pattern within agriculture has not been distorted seriously. Carry-overs are now abnormally small and they need to be built up as soon as possible. Building up stocks of the more durable farm commodities will provide an important buffer should the transition come upon us suddenly, as it may. By and large, farmers are now in the best financial position in the history of American agriculture, and their overall competitive strength has been improved by marked advances in farm technology and by the exodus of millions of farm people who were decidedly underemployed in farming; that is, working hard it is true, as a rule, but producing very little of value. (It should be noted, however, despite the high level of employment in business; there are curently at least 3,000,000 and perhaps as many as 4,000,000 persons in agriculture very much underemployed; these persons are in need of job opportunities in nonagricultural occupations.)

Among the unfavorable factors are the rising cost structure in agriculture, and more important, the inadequate price policy of the Government with regard to farm products. Not only are the services that farmers buy for consumption and production continuing to rise, but they are likely to stay very high after farm prices recede to posttransition levels. On price policy, we are dependent, following the post-Steagall period, upon legislation designed for the depressed circumstances of the thirties.

3. *After the transition.*—Government price supports for farm products growing out of the Steagall legislation will terminate at the end of 1948. Beginning, then, with 1949 we shall enter the post-Steagall period. Let me assume also that by then American agriculture will have been permitted to make the transition to normal, peacetime conditions.

Two unknowns of major importance confront us. We do not know: (1) how well the industrial-urban economy will perform. It may not be as critically unstable as it was during the interwar years. There is, however, uncertainty enough to warrant being prepared for a large measure of economic instability. (2) Nor can we anticipate the volume and character of foreign trade after 1948. It may become freer and more settled. The uncertainties, however, bulk large and it is the better part of wisdom to be prepared.

Support prices tied to parity are viewed as one way of dealing with the instability of farm-product prices. To decide what to do about support prices we need to reexamine what it is we want prices to do in the economy.

To give this query meaning it is necessary to indicate what it is we want the price system to achieve and what are the criteria for identifying this achievement. In an economic context prices have an important and unique role to perform in connection with the valuation of products and factors..

Our quest is for an efficient pricing system, efficient in performing several functions that integrate major economic processes. As policy with regard to farm prices has taken shape several fairly distinct functions have emerged, namely: (1) Prices to guide the allocation of resources in production; (2) prices to channel products into trade both at home and abroad; (3) prices to distribute income from farming over time; and (4) prices to distribute income among persons.

Can a pricing system be "efficient" in all of these functions at one and the same time? Are we putting altogether too big a burden on the pricing system and thereby weakening it and making it less efficient than it otherwise would be in performing the more limited tasks that are appropriate to its capacity? The answer to the latter question appears to be strongly in the affirmative both on theoretical grounds and from the lessons taught to us by experience.

It is my belief that prices are not an appropriate means for "stabilizing" the income from farming over time and also that they are not suited to lessen the inequality in the personal distribution of incomes. I believe that the main positive role of the pricing system is to guide production and to channel products into trade for domestic and foreign use.

Given the existing state of our political economy—chiefly the prevailing attitudes toward economic policy, the nature and capacity of economic institutions, and the type of development that characterizes our economy—it is my belief that the pricing system on which agriculture depends will not be permitted (politically and institutionally) to perform its production and marketing functions efficiently unless ways and means are first found (1) to make the flow of farm income much steadier than it has been from one year to another and (2) to reduce substantially the inequality in income among families. The first of these is, politically, much the more urgent of the two.

Plainly we have come out of the interwar period and the late war with a price policy for agriculture designed primarily to attain the objective of stabilizing farm incomes over time.

My appraisal and recommendations may be summarized as follows:

1. The principal policy objective in this sphere should be to develop an efficient pricing system, efficient in performing two major functions, that of guiding allocative decisions in agricultural production and that of channeling farm products to consumers.

2. The pricing system is not an appropriate means for stabilizing income from farming over time. To place this burden on the pricing system, as has been done in recent years, can only reduce greatly its capacity to perform the two functions for which it is an appropriate means. Improving the personal distribution of income among families, and more especially its distribution over time, needs to be achieved by means other than prices.

3. Under fairly stable economic conditions (such as appeared to have prevailed from about 1895 to 1915, for example) the pricing system may succeed to integrate its two major functions.

4. Under distinctly unstable conditions (such as have been occurring since World War I, for instance) the pricing system loses its capacity to integrate

the relatively long-run production decisions and the comparatively short-run decisions involved in marketing to serve consumers.

5. To avoid this disintegration of the pricing system the first lines of defense are measures that will counteract business cycles and wars. This is, however, a big order and meanwhile other measures need to be developed to keep the pricing system from disintegrating under unstable economic conditions.

6. This formulation indicates that it may prove necessary, under unstable economic conditions, to approach the two functions that are properly the tasks of the pricing system separately, and develop for each appropriate policies and institutions on the one hand to quide the allocative process in agricultural production efficiently by such means as forward pricing and other new institutions to lessen the price uncertainly impinging upon farmers; and, on the other hand, to channel farm products into markets at home and abroad by freeing market prices.

What modifications should be made in price supports?

I would be inclined to the following specific steps:

1. Continue a policy of price supports for agriculture after 1948.

2. Have the price-support level announced before farmers have made their production plans.

3. Make the announced price support less (somewhere between 15 and 25 percent less) than the expected market price at full employment.

4. Permit the market price to rise above and fall below the support-price level.

5. Whenever the market price is less than the announced support price, have the Government make up the difference by means of income payments to farmers. These income payments should meet the following conditions: (1) They should be strictly countercyclical in design, (2) they should not induce production decisions in agriculture inconsistent with long-run requirements, and (3) they should not clog the channels of trade.

Is it possible to achieve a revision of parity that will make a system of support prices tied to parity workable? Three basic problems arise: (1) The general level of parity, (2) the relationship of the parity of one farm commodity to other farm commodities, and (3) the anticipation of fundamental changes in supply-and-demand conditions in a developing economy.

Several observations may be made:

1. The general level of parity prices is too high when it overvalues farm products relative to the nonfarm products and services (used in calculatng parity) and it is too low when it undervalues farm products relatively.

2. The existing parity formula undervalues farm products when the demand is excessive as it is during war, during periods when extraordinary export demand exists, and whenever overemployment arises in industry.

3. The existing parity formula overvalues farm products when the demand is deficient as it is whenever widespread unemployment exists in industry.

4. In my judgment, the existing parity formula, under conditions of full employment and "normal" export demands, would overvalue farm products about 10 percent.

5. Obviously it is not the general level of parity that is far out of line (under "normal" conditions), but no one can gainsay the fact that parity, as it now is calculated, greatly overvalues some farm commodities and very substantially undervalues others.

6. A more recent parity base, for instance using 1926–30, or 1935–39, or some other period instead of 1910–14, would correct some of the discrepancies among farm products. But each base, regardless of the period selected, will introduce other discrepancies.

7. The best possible base would be a recent period when the economy was operating at or near full employment and foreign trade was neither swollen nor depressed. But even such a base, if it were available, would soon become obsolete and inadequate for determining the parity price of one farm commodity relative to other farm commodities.

8. No parity formula based on history (some past period) can anticipate fundamental changes in supply-and-demand conditions that determine the real value of a given farm commodity.

9. Some of the more obvious discrepancies inherent in the existing parity formula with regard to specific farm commodities can be eliminated. The main corrective, however, lies in a return to (1) a lower parity for support-price purposes, and (2) a range within which administrative discretion is permitted when parity is applied to a particular farm commodity.

The CHAIRMAN. Now we will hear from Mr. Sanders of the National Grange.

STATEMENT OF J. T. SANDERS, LEGISLATIVE COUNSEL, THE NATIONAL GRANGE, WASHINGTON, D. C.

Mr. SANDERS. As Mr. Goss stated, after he finished his testimony a few days ago, my paper was more or less intended as a supplementary paper to what Mr. Goss had said, and it is intended that it should be considered that way at this time.

The National Grange, as National Master Goss has told you, has had for many years a sustained policy in support of an economy of abundance for both agriculture and nonagricultural industries. If we understand the purposes and the aims of the Employment Act of 1946, they are identical to the policy of an abundant economy which is supported by the Grange.

I shall point out the characteristics of American agriculture that determine the role it will play in a successful operation of the 1946 Employment Act. In doing this, I shall also bring out clearly why the Grange stands for a national policy of abundance, not alone for agriculture; but also why we stand for policies for both industry and labor that are keyed into full output and full employment instead of policies dominated by restrictive output and maintenance of price and wage levels at the cost of output as is so frequently the case at present.

If, under the purposes of the Employment Act, the National Government is able to "afford useful employment opportunities for those able, willing, and seeking to work and to promote maximum employment production and purchasing power" it will be found that no important change or control of agriculture will be necessary to fit it into such a soundly balanced economy. Agriculture is the only significant segment of our national economy that now meets these goals, both in years of prosperity and depression. It is now, and has always been, we believe, an almost perfect pattern for fulfilling the goals of the act.

The basic reason why the Grange has never supported control of agricultural production as a means of raising farm income, and why we support abundance as a policy is that we know that the nature of American agriculture makes abundant sustained agricultural production inevitable. We know that free enterprise and an unregimented agriculture will invariably bring forth, during years of depression or prosperity, a reasonably full output.

We shall cite detail fact to prove this and undertake to explain the reasons why agriculture does not respond to depressions as does industry. But we also believe in an economy of abundance, an economy of antimonopolistic practices for agriculture, labor, and capital, because we know there is no other road open to stable prosperity under our democratic free enterprise way of life.

If agriculture did not meet the goals of a reasonably full output at all times, depressions in this Nation would be nightmares of chaos, starvation, and revolution; and our vaunted free enterprise and democratic system would probably have long since disappeared. Had agricultural output been reduced from 1929 to 1932 by approximately a half, as was all industrial production and production of manufacturers, the great majority of Americans would have been reduced to dietary standards below those of the worst starvation areas of Europe today. But, thanks to the full production service of farmers, figures taken from sources of the United States Department of Agriculture show that the apparent consumption of all food per capita in 1932 was only 3 percent less than that of 1929, all fats and oils consumption was only 2 percent less, consumption of all meats, excluding lard, was not quite 1 percent less, and consumption of all dairy products and all fresh vegetables was 2 percent more. This magnificent showing during one of the worst depressions of our history was due to the fact that agriculture was the one segment of our economy that met the ideals of the 1946 Employment Act.

In order to high light the great national need of applying the ideals of the 1946 Employment Act to nonagricultural industry, I would like to contrast in brief detail what happened to agriculture and to industry during the depression from 1929 to 1932.

Agriculture from 1929 to 1932 increased its total crop land 2 percent, its number of units of livestock by nearly 6 percent, its total farm output by 3 percent, its meat products by 4 percent, and its total crop and pasture products by 2 percent. It did this with only a 3-percent reduction in the number of people working, with only a 2-percent reduction in horsepower units used, and a 45-percent reduction in fertilizer.

Here is a picture of extraordinary stability for this, our greatest single industry, during the worst depression, in many respects, this country has ever experienced. Contrast this stabilized operation, employment, and output of American agriculture with what nonagricultural industry did. Total industrial employment was reduced 37 percent; and industrial production was reduced by 47 percent, production of manufacturers, by 48 percent; manufacturers of durable goods, by 69 percent; and nondurable goods, by 25 percent.

Comparing further these reductions of physical goods turned out by industry to the reduction of only 3 percent in agriculture, in terms of physical exchange ratios of goods turned out, there was only 54 percent as much industrial goods in 1932 to exchange for a given amount of the product of farms as there was in 1929.

With practically a full volume of agricultural products forced to exchange for a volume of nonagricultural products that was half of normal, it is no wonder that net income per farm worker dropped from $649, in 1929, to $218, a drop of 67 percent; while the total wages and salaries of all manufacturing workers dropped less than 51 percent, in spite of a production that was only half of normal.

It is highly important to note the total wages and salaries of workers in manufacturing plants dropped almost exactly as much, 51 percent, as did the total volume of the goods they turned out, 48 percent. Clearly, income and total wages are derived from products turned out. Numerous other facts can be marshaled to show an unusually close relation between the share labor receives for its work and the volume of goods it turns out.

In his enlightening testimony given a few weeks ago before the Labor Committees of the Senate and House, Dr. Willford I. King reveals the striking fact that through good times and bad times, since 1919, when only 14 percent of labor was unionized, to 1945 when it was 36 percent unionized, labor received an extraordinary stable proportion of the total national income and the total income of the industry in which it was employed.

The 2 years when labor received the largest percentage of net new spending power created by industry was in 1931 and 1937 when production was at a low ebb. The same stability of proportion paid to labor out of the total product of industry is shown by a calculation from the United States biennial census of manufacturers. From 1899 to 1939 labor has received from 35 to 43 percent of the total value added by industry to the goods it turned out. Only in the one year 1921 did labor get 43 percent, the highest for any other year during this period being 41 percent. So in reality the range varied only from 35 to 41 percent during this period except for 1 year.

The most vicious exploitation of labor undoubtedly is the fact that it is turned out on the streets during depressions and not that its wages are unjustifiably cut. In 1932 there were 37 percent less people employed in manufacturing than in 1929. This was the crime of 1932 and not that labor received an inequitable return for its services to society.

In 1929 the average weekly earnings of industrial workers was $25.03 and in 1932, $17.05, a decline of 32 percent, but the purchasing power of the 1932 weekly wages was actually slightly larger, 1 percent, than that of 1929. During all depressions this country has had since 1800 the purchasing power of wage rates—not total amount paid out for wages—has increased except during two minor recessions.

In short, the laborer who actually had the good fortune to be employed in 1932 received for his work just as much purchasing power as he did in 1929 in spite of the fact he worked, on an average, 44.2 hours per week in 1929 and 38.3 hours in 1932, a reduction in time worked by 13 percent. At the same time output per worker declined 16 percent. Actually, therefore, in proportion to the product turned out, he worked a 13-percent shorter time per unit of earned purchasing power than he did in 1929. Had he worked as much per week as in 1929 and maintained his proportionate purchasing power per unit of output, his real earnings would have been around 13-percent greater in 1932 than in 1929.

But what of the farmer? He probably worked longer hours in 1932 than in 1929, turned out only 3 percent less products which was the same as the percentage reduction of working force and received 52 percent less purchasing power for an equivalent amount of working time than he did in 1929.

Here is the vital crux of the problem of making the 1946 Employment Act a living functioning social institution. We must see that the 37 percent of industrially unemployed are put back on the pay rolls and must be kept busy turning out an output in balance with the fully employed, full producing farmers.

Gentlemen, this feat cannot be accomplished by any legerdemain of deficit spending by the Government unless we want to put the Government to running the factories turning out useful goods—shoes, pins, radios, adhesive tape, guns, pig iron, and what not. We can't accomplish this feat by putting people on public pay rolls and building more public works than a national balance would require. Nor can we correct this by boondoggling or by raising wages to give the worker a greater purchasing power. These activities would not positively balance the unbalance of production. We cannot correct it by pouring millions of dollars of Government subsidies into the pockets of farmers, as basically just as this would be for the farmers' sane service in the mad, hectic days of crises.

All these, if they had been done in 1932, would still have left us woefully short of the sorely needed 47 percent loss of industrial production, the 48 percent loss of manufacturers' output, and the 69 percent loss of durable goods. Under such circumstances without a positive program for restoring the balance of production of useful goods thus bringing a flow of the goods that men live by and not a surplus of public works, no amount of pump priming of purchasing power can cure the economic ills besetting the country.

Senator WATKINS. Was there not a shortage in manufactured products?

Mr. SANDERS. There was a shortage of supply and normal production.

Senator WATKINS. There were more automobiles than could be used.

Mr. SANDERS. Thirty-seven percent of the people were absolutely without earning power. There is no effective demand for automobiles when there is lack of earning power to buy them.

Senator WATKINS. Even if they had produced more how would that have helped?

Mr. SANDERS. If we had had men making automobiles, the normal number of men making automobiles, they would have earned salaries naturally, and you would have had a demand for more automobiles. If you keep all production in balance that would be true. I think that would be true even if price levels were down. I do not think price levels will go down anything like they did if there was some way of keeping the physical output of different industires in fairly normal balance; the importance of this balance is all I am trying to bring out in this paper.

To meet this situation production and "employment insurance" is our basic need—not unemployment insurance, not a dole, not a raise or even a maintenance in wage rates, and certainly not a lunatic fringe of deficit spending. All of these cause us to spend in an abnormal unbalanced manner. We simply, thereby, to a large extent tend to inflate the prices of a short supply. All of these admittedly for a time are "shots in the arm" but most of them still leave us with an unbalanced output, a headache that ultimately must be cured by a full industrial production that is in balance with that which prevails in agriculture.

Before I undertake to suggest specifically the major segments of industrial production and employment that are more sensitive to crises and must be sustained during crises I would like to examine breifly why agriculture maintains its output, and industry in contrast reduces its output when economic squalls strike.

Let me lay the foundation for my remarks on this subject by briefly contrasting the nature of the farm business unit with that of the average industrial business unit. Approximately 65 percent of the costs of operating the average American farm are fixed costs and 35 percent are variable costs.

The rent or interest on the farmer's investment is largely fixed, so are his taxes, insurance, much of his feed for work stock, his labor, and other costs. He cannot materially reduce these costs by reducing his volume of output when depression hits. Likewise he and his family supply about four-fifths of all labor needed on his farm.

He would lose more by increasing his output than he would by maintaining it.

On the other hand, the average farmer does not redouble his efforts and increase his production when an economic storm hits him as some have claimed. He probably would lose more by markedly decreased output than by maintaining his customary volume. In any case, he does not seriously change his normal total output either up or down when a crisis hits. He, like Old Man River, just keeps "rollin' along."

Let me hasten to say that this failure to alter his output when demand slackens, is not due to the farmer's economic stupidity. Quite the contrary. It is good business acumen, it is economic sense on his part. What is far more important from the social viewpoint, farm production is the only 100 percent socially and individually sane segment in our economy during crises. Furthermore, the nature of the farm business is such that it persists in this type of socially sound service regardless of Government efforts to control it or restrict output.

When I say that a high sustained level of output is good business for the individual farmer under most circumstances, I do not mean to deny that year-to-year shifts between crop and livestock enterprises on individual farms in conformity to changes in costs and prices are not sound business. Farmers are constantly making such enterprise adjustments.

Some have thought that as farmers become more highly mechanized that they will tend more and more to restrict output like industry does during crises. This is highly doubtful since mechanization actually tends to strengthen the family type farm, where the family supplies a larger and larger portion of all labor needed on the farm. The largest percentage of labor supplied by the family is in the areas of most highly mechanized agriculture. Also this percent of family labor has increased over the years most in the areas where mechanization has advanced most rapidly.

Total farm output can be reduced but little, if any at all, by restricting three or four major crops as has been undertaken in past Government programs. We have at least 75 other crops that will take up the slack when control brings in the major controlled crops. Literally hundreds of other productive alternatives present themselves, in lieu of the restricted crops, on which other crops the farmer can and does use his labor and resources to the full extent.

The Government would have to rent a lot of farm land and keep it out of production, control the sale of fertilizers, prevent the farmer from boosting yields by improved methods and techniques, and restrict the farmer's hours of labor, before it would have a sure-fire farm production control plan that would match the accomplishment of reduced industrial production that quickly results in crises. In fact, we will never be able to match this reduction of industrial output in the field of agriculture and at the same time maintain a free enterprise economy in agriculture.

Nothing short of a dictatorship could greatly change the great social service of a steady volume of output which the farmer now, unmolested or molested, performs and will continue to perform for the Nation. No one fully aware of the consequences wants this inherent nature of farm production greatly changed. Certainly such a farm program of crop reduction has no place in a successful full-employment policy.

But what of industry—why does it behave opposite to the action of the farmer when crises hit? The average American industrial unit, according to figures reported to the Bureau of Internal Revenue in 1937–39, in contrast to the farm unit, works with fixed costs of only around 20 to 25 percent of all costs and with variable costs of 75 to 80 percent. Over half of the variable costs of industry is hired labor costs; another big slice is raw or partially finished materials. Both of these costs can immediately be reduced by a partial close-down and a reduction of output, and usually are, at the very outset of a crisis. The employer thus saves himself from a greater loss than he would sustain by operating at full volume when inventories of finished goods are piling his warehouses full to overflowing and prices are on the toboggan. It's simply good business for the industrial manager to do thus, even though it is cruel, vicious, and terribly unfortunate for the welfare of labor, farmers, and the general public. But to the individual manager there is usually no sensible alternative.

This simple elemental difference between the nature of agriculture and industry as producing concerns is frequently not understood or is overlooked in dealing with some of the most vital problems of both fields. This difference is of most vital significance in appraising agriculture's interest in full employment and high output in industry. Since agriculture's nature is the kind that delivers a steady full output and that renders the desirable social service, it is obvious that adjustment for securing a more equitable balance in output must be that of raising employment and output in industry and not reducing agricultural production.

During 1932, as we have noted, there was almost just exactly half as much products of industry turned out to exchange for a given amount of farm production as there was in 1929. Certainly this situation was not to the liking of either farmers, managers of industry, or the laboring man. The interest of all in striking a more equitable balance of farm and factory out put was entirely in harmony.

It is my personal belief that full employment policies should at all times occupy an outstanding position of precedence in all labor-union policies. All too often, the overwhelming efforts of labor leaders are made in fights for higher wages, shorter hours, and a generally larger share of the total product, even at the expense of lowered output.

Farmers resent keenly an overemphasis of restricted output either in their behalf by the Government, by labor, or by monopolistic business. Undeniably wage rates, hours, and labor conditions are vital to labor's welfare, but they are not so clearly and directly in harmony with the farmer's interest—especially in their output restrictive aspects. If these were relegated to a secondary position in labor policies and stable full employment were made the keystone of labor policies, farmers would at nearly all times be friendly to organized labor's efforts, I am convinced. Such a policy of organized labor, we believe, is necessary for a successful administration of the 1946 Employment Act.

I should like to call your attention to another very important characteristic of American agricuture that makes it imperative for farmers to take an active and greater responsibility in the future than they have in the past in promoting the maximum amount of stable nonagricultural production and employment. I refer to the persistent annual surplus of around 500,000 farm boys and girls that must seek employment in urban industry. Also the continued rapid increase in productivity per man reduces the total manpower needed on farms. Both of these have given farms a surplus of labor every year for the past 27 years, with the single exception of the disastrous year of 1932, when 326,000 net migration of urban people piled back onto the farms and the support of the sorely depressed farmer to be fed and given living quarters.

As far as the foreseeable future is concerned, the birth rate on farms is likely to exceed that of the number required to maintain farm production at a desired level. One thing which farmers can do, and must do, to help relieve this constant farm-labor surplus, is to reduce their hours of labor just as labor in industry has done. The average full-time farm workers are now probably working from 50 to 55 hours per week. Labor in industry is now clamoring for, and in many cases getting, a 35-hour workweek.

Both the future excess of farm boys and girls and the future great advance in productivity per man on farms would make it imperative that farmers in the future assume a real responsibility in joining forces with the laboring man and the management of industry for maximum steady industrial employment.

Only thus can maximum satisfactory absorption in industry of surplus far labor force be accomplished. When, to this incentive, we add that arising out of the contrasting nature of the farm business and industry mentioned above, we realize that formidable forces indeed, give American farmers almost as much incentive as the laboring man himself, in joining forces to work for a high stable level of industrial employment and output.

During the two decades between World War I and World War II, rewards left for labor in agriculture after paying for all costs and crediting the farmer with all family living value furnished by the farm, was only about one-half as much as rewards for comparable labor in industry.

Also, there are many other economic factors—similar to the persistent surplus of farm workers—that tend to keep agricultural rewards at an adverse disparity to rewards for equivalent labor in industry.

The greatest sustained prosperity of this country demands a correction of this disparity. Full employment and output in industry would not fully solve this disparity. But this problem of disparity is mentioned merely as a completion of the picture of total factors involved in a permanent successful attainment of the objectives of the Employment Act. A sound, permanent, farm program is also needed—one that corrects persistent farm disparity.

In undertaking the problem of balancing agricultural production, which as I have stated, is reasonably stable during crises, with nonagricultural production there is need for further examination and comparison of the elements of stability and instability in both farming and in industry. Let us examine briefly, first, agriculture in this respect.

In spite of the much-overrated claim that agriculture is constantly tending to overproduce, total crop area in the United States for the current crop year of 1947, is about 360,000,000 acres which is approximately the same as it was in 1919, at the end of World War I. The maximum amount of cropland for any one year since 1919 was approximately 380,000,000, or a 5.6-percent increase above the World War I acreage; and the smallest crop acreage for any one year during this period was 340,000,000, or a reduction of 5.6 percent under the present war-stimulated acreage. The average year-to-year change in total crop acres during this period was 1.9 percent. For 12 years crop acreage was approximately 360,000,000, and for 8 years, 350,000,000. This represents a remarkably stable element in agriculture. Few phenomena known in the economic world show such striking stability, and this is all the more striking when one considers that there are over 130,000,000 acres of plowable pasture that can be physically put in crops or taken out each year—a potential acreage change of 36 percent.

The labor force used in agriculture is likewise very stable. In 1919 at the end of World War I, 11,100,000 workers were employed on American farms; in 1946, 10,000,000 were employed.

In general, there has been a slow gradual decline in total number of farm workers employed during this period of 27 years. Changes have averaged approximately only 1 percent increase or decrease per year with a maximum change for any one year of less than 4 percent. Thus it will be seen that this factor of agricultural economy is equally remarkable for stability as is that of crop acres. Compare this great stability of employment in agriculture with unemployment as high as 54 percent in some durable-goods industries in 1932.

The total units of horsepower used in farm operations have had a remarkable stability also since the turn of the century in spite of the fact that during this time over half of the total horsepower needed was shifted from animal to tractor power. In both 1920 and 1944 we used exactly the same total of 20.7 million units of horsepower for field and other traction work on farms.

Senator FLANDERS. Are you lumping animals and tractors?

Mr. SANDERS. Tractors are reduced to horse units of power which run about eight units per tractor. That has been worked out by the Department of Agriculture on the basis of the actual application of tractor power on farms.

Senator FLANDERS. All right; thank you.

Mr. SANDERS. In only 2 years during this entire period was there a greater change than 3 percent, the average change being less than 2 percent of all years since World War I.

These three basic factors of agricultural production, cropland, total labor, and total draft power have had a powerful stabilizing influence on agricultural production during the past quarter of a century and will probably continue to have this influence in the future.

On the other hand, index of yield per acre for all crops combined, which yields are largely not under the farmers control but are largely determined by the vagaries of Nature, have changed from year to year since 1910 an average of 6.8 percent. This is 3.6 times as much year-to-year change or instability as that of total crop acres during these 35 years.

The two factors of livestock, other than draft animals, and fertilizer are both significant factors causing changes in farm output from year to year. The use of these two factors is under the control of the farmer and he radically changes from year to year, depending on economic conditions. Even at that, production of livestock products is far more stable than crop production.

As a consequence of the predominance of the factors of stability, the total output of agriculture as previously stated in connection with explaining the nature of the farm business is remarkably stable from one year to the next.

From 1909 to 1946 it has varied from year to year by an average of 3.6 percent, and this variation is largely due to nature, not man. This stability cannot readily nor sanely be interfered with. Full employment and production in industry if attained to anything like the same degree as in agriculture will do much to help solve the farm problem. We do not claim, however, that it will completely eliminate agricultural disparity.

Finally, I would like to sketch briefly the fields of nonagricultural industry that fluctuated in their output to the greatest extent and that do most violence to a stable prosperity of both agriculture and industry. These are the industries that must be given fuller steadier output and employment by the 1946 Employment Act. The table given below is based on indexes of physical production and employment for various industries as published in Federal Reserve publications.

(The table referred to follows:)

Decline in amount of industrial goods produced and available for exchange with agricultural products from 1929 to 1932 and decline in number of workers employed in various American industries

Kind of industry production	Percentage 1932 ratio of industrial to agricultural output is of the 1929 ratio	Percent of 1929 labor force employed in 1932
All industrial production	54	
All manufacturers	53	63
Durable goods production	32	50
(a) Iron and steel	25	56
(b) Machinery	34	45
(c) Transportation equipment	30	54
(d) Nonferrous metal products	39	53
(e) Lumber and its products	36	46
(f) Stone, clay, glass products	48	50
Nondurable goods production	78	75
(a) Textile and products	78	74
(b) Leather and products	82	82
(c) Manufactured food products	80	80
(d) Tobacco	85	78
(e) Paper and products	79	77
(f) Printing and publishing	73	
(g) Chemical products	74	74
(h) Petroleum coal products	79	
(i) Rubber products	66	61
Total mineral production	65	
(a) Fuels	72	
(b) Metals	28	

Mr. SANDERS. The exchange ratio merely reflects the decline in produced supplies of industrial product compared with the physical production of the farmers. It will be seen that the ratio of all durable manufacturer's products sank in 1932 to 32 percent of their produced supplies of 1929.

In other words, there was less than one-third as many durable goods produced in 1932 to exchange for a given amount of farm production as there was in 1929. The showing was worse for iron and steel, the figure being 25 percent; for clay products, the showing was best for durable products—48 percent or one-half of the relative supplies compared with 1929.

It is believed that the production of goods of nondurable manufacturers which occupy an intermediate field between agricultural production and durable-goods production during crises will largely correct its own maladjustment when and if durable output is assured or stabilized at a reasonably high level.

We realize that it is easy to advise industry and labor to keep up full production, but that it is quite another matter to advise how to do it. We believe the suggestions made by National Master Goss bear directly on this point and should receive the committee's serious consideration.

We also call the committee's attention to the fact that every major depression has been preceded by a period of low farm income which has seriously reduced the purchasing power of nearly half our people who are either engaged in farming or directly dependent upon farm trade for a livelihood. If farm income could be more stably related to farm production, and if industry and labor would take the interests of the public into consideration along the lines suggested by National Master Goss, we believe we would have made a tremendous start in attaining the goal of maximum employment we all seek.

We realize we have outlined in only a fragmentary way the means of implementation of a program of full employment and output in industry to balance that of agriculture. We believe that the working out of such a detailed and practical program should be faced honestly and vigorously. Failure to do so in the near future we believe will bring about conditions that will place stresses on our free-enterprise system that have never been equaled in the past; success in setting up such a practical program of stable full employment would result in an undreamed of enhancement of our living standards and a great strengthening in our leadership of all other ideologies of the world.

The CHAIRMAN. Thank you, Mr. Sanders. You have given a very interesting angle on the situation and facts.

I still do not know how we are going to keep that industrial production up.

Mr. SANDERS. Frankly, I do not either.

I would like to add just a few words, Senator Taft. I worked out as a relative situation the wages of industrial workers compared with the labor earnings of the farmer.

In calculating this comparative wage for the farm operator and industrial wage worker, I credited the farm with rent on the house, with all the living that the farmer got from the farm, with all the labor he did off the farm, whether it was on other farms or in industry, to get his gross income. Then I deducted the expenses, including hired labor and fertilizer all variable expenses and the average farm wage for the family help, and also an interest on the equity of the farmer in the farm, in order to get a final figure of labor income for the operator of the farm.

Now, I found that in only 2 years since 1910 has the farmer got more labor income when calculated in that manner than the average industrial wage worker.

Those 2 years were 1917 and 1918 in the other war.

During this war the farmer received the following labor income: In 1942 he received 85 percent of the average earnings of the industrial wage worker; in 1943 he received 88 percent; in 1944, due to the fact that industrial wages went up because of increased pay and overtime pay, and the fact that costs in agriculture were going higher, the farmer actually dropped back and received 80 percent of the average industrial worker's annual wage; in 1945 he received 85 percent; and during 1946 he was back up to 96 percent.

Now, if the farmer in all equity is entitled to as much earnings for his labor as the average industrial wage worker, he certainly never got it.

Between the wars the lowest he got was 18 percent of the average industrial wage worker's earnings. That was in 1932.

The CHAIRMAN. That is the rate per hour?

Mr. SANDERS. Annual rate.

The CHAIRMAN. Then, in 1932, he was probably better off than anybody else because he could live off his farm?

Mr. SANDERS. I do not think that, Senator, at all.

The CHAIRMAN. The two things are not entirely comparable?

Mr. SANDERS. Yes; that is true. If you are talking about a self-sufficing farmer; yes. But you want to remember the farmer that has a mortgage, interest, taxes, and paid labor, and has to pay grocery bills, worries a lot because his cash income just will not meet his bills, much less than the laboring man, because the farmer has an investment to save. He has an investment he has got to take care of. I would never say he was better off. He did not even have more food because the figures show in 1932 the food consumption in America was not changed from 1929. There were more dairy products consumed per capita than there were in 1929.

The farmer feeds us but he gets the little end of the stick when we hit a depression.

Senator WATKINS. He does not have featherbedding.

Mr. SANDERS. He does everything else except practice featherbedding in his work.

The CHAIRMAN. Thank you very much.

Senator FLANDERS. There is no question so difficult as the question of how to do it.

Mr. SANDERS. May I suggest a rash idea that is purely personal. In this I am not speaking for the Grange. I think there is a possibility of a program of employment insurance working out and helping. In the highly sensitive industries when they are overinflated or overproducing, a certain percentage of wages and an equal amount would be withheld from the management and these deductions would be placed in employment-insurance-fund reserves. When their trend of production falls 10 percent below normal, then this fund will be paid back in the form of employment insurance as a percentage of total wage bills, provided the managers of the industry maintain employment and volume of output.

The CHAIRMAN. Yes. Suppose you built more hotels and office buildings than needed, as you did in 1929? Why should we build and build things we do not need?

Mr. SANDERS. Oh, no.

The CHAIRMAN. That is the problem you face in the durable-goods industry. How could you keep it at a stable level?

Mr. SANDERS. I believe this would do it. Let us examine your question. Probably those hotels were built not in 1932 but in the twenties.

The CHAIRMAN. We overbuilt. The best answer is the boom which should have been retarded.

Mr. SANDERS. That is what this would do. I think hotels is a bad example. You would probably have to select something to make your deduction from, but a heavy deduction from the wages and the builders at that time would have restrained the overproduction to a certain extent. Then during the depression, if you had helped them out from the standpoint of payment of labor, it would keep building at a more level keel. In other words, it would tend to stabilize these very unsteady portions of our economy.

I am not proposing that you take money out of the Treasury to pay this. I think it could be done by deductions from wages and management in boom times and paid back in periods of slack production.

The CHAIRMAN. Thank you very much. The committee will adjourn.

(Whereupon, at 12:25 p. m., the committee adjourned until 10 a. m. Monday, July 14, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

MONDAY, JULY 14, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to adjournment, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Flanders, Watkins, Sparkman, O'Mahoney, and Congressman Huber.

Also present: Staff members Charles O. Hardy, Fred E. Berquist; and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Jerome M. Ney, chairman of the board of the American Retail Federation, Fort Smith, Ark.

STATEMENT OF JEROME M. NEY, CHAIRMAN OF THE BOARD OF THE AMERICAN RETAIL FEDERATION, FORT SMITH, ARK.

The CHAIRMAN. I note you have a prepared statement. Do you wish to follow the statement? It would take rather a long time.

Mr. NEY. Mr. Chairman, we submitted a complete transcript to our statement. I can handle it in any way you wish. However, there is a part of it I would like to get in verbatim, and if my time runs short, I can summarize the balance, but I would like to have the entire statement go in the record.

The CHAIRMAN. Yes; the entire statement will go in the record, but I may interrupt you from time to time to ask you some questions.

Mr. NEY. Yes, Mr. Chairman. My name is Jerome M. Ney. I operate several retail stores, the principal one being the Boston Store Dry Goods Co., of Fort Smith, Ark.

I am chairman of the board of the American Retail Federation. This organization has offices at 1627 K Street NW., Washington, D. C.

The ARF membership includes 20 national retail associations and 33 State councils. A list of these is attached to this statement. Through these constituent groups, ARF represents upward of 500,000 retail stores.

I am not presuming to tell you that I speak unreservedly for 33 State and 20 national associations and 500,000 stores. Indeed, I do not know how many of them would endorse what I am going to say. If you should ask me how they stand on a specific tax bill, a tariff schedule or a labor measure, I could get you a reasonably accurate answer within a few days.

In this case I cannot. The subject is too broad. It touches the core of our thinking on economics and political science from every conceivable angle. My appearance here, in a way, represents an effort at self-education with the hope that it may stimulate interest among others in the retail business and contribute to your committee's study of the stabilization problem.

What I am saying is based on my economic and political convictions. I have supported these convictions with the best research help I could get. So far as possible, I have checked my conclusions with associates whose business ability and public spirit I have reason to respect.

The CHAIRMAN. Mr. Ney.

Mr. NEY. Yes, sir.

The CHAIRMAN. Would the 500,000 stores you refer to go into the rather small retail store category in size?

Mr. NEY. Yes, Senator, they do. For example, the National Retail Hardware Association is a member of the American Retail Federation, and there are quite a number of very small stores in the hardware field.

The same is true of many of the members of our 20 national retail associations and the 33 State councils.

The CHAIRMAN. How many retail stores are there in the United States?

Mr. NEY. According to the 1939 census there were 1,770,355 retail stores. Of these, 560,549 were food stores, not including about 345,000 eating and drinking places and other stores in which food constitutes a relatively small part of volume.

The CHAIRMAN. Proceed.

Mr. NEY. My view, I am sure, is conventional, sound, distributive theory. In general, it would be accepted by most retailers. This appearance, however, is made without prejudice to the views of many who will disagree in detail.

The word "planning" occurs from time to time in this paper. I am not afraid of it. But I want to be understood when I use it.

The popular idea of "planning" is that it involves a system of detailed economic restraints, guides, controls, and supports for business. I am against that sort of strait-jacketing of the economy.

What I am for is the opposite of that.

I simply favor an orderly, integrated handling of the policies and measures, domestic and foreign, necessary to a normal, orderly Government. These policies should be constructed with the idea of creating an atmosphere in which business will be encouraged to do what it should do.

It is the function of business to expand steadily and in expanding to pass on to consumers the benefits of greater productivity in the form of higher wages and lower prices. This is the regenerative economic process on which our capitalistic-industrial democracy has grown.

The basic interests of American retailers and consumers virtually are identical. Both benefit from a maximum flow of goods at reasonable prices. They suffer alike when some economic maladjustment slows down production.

Retailers and consumers have a common stake, then, in the goal of the Employment Act of 1946. That goal is a steady high production.

This, in turn, should result as in the past in even better wage standards and in lower prices.

There is no reason to become defeatists and accept a reversal in trend as inevitable. The job is to apply our intelligence open-mindedly to planning well-timed stimulations that will result in the creation of more goods in an economy characterized by an always widening productive potential.

This is not the sort of thing that just happens. It cannot be done by slogans and phrases. It is an engineering, not a propaganda problem. We must, in peace, strive and work as hard for full production and stabilization as we did in war.

We dare not forget that failure to keep the economic flywheel in proper motion makes terrific exertions necessary in order to build up speed again. This is sheer economic waste. A fraction of what we spend in regaining lost speed, applied at the proper time, would give great gains where we record losses.

Your committee has a vast opportunity and a heavy responsibility. It is your task to provide the Nation, the individual Members of Congress, and particularly the specialized committees of Congress, with a balanced picture of our national economic needs.

Under your guidance legislative actions on specific economic problems must be dovetailed into a well-conceived pattern that fits these broad needs. This the joint committee is in a position to accomplish.

The Employment Act also places a heavy responsibility upon every economic group in our Nation to promote the general public interest better than in the past.

As individuals and as members of special-interest groups, we compete for bigger shares of the Nation's output. This competition is healthy. It represents one of our basic freedoms. But too often we abuse this freedom, particularly when we compete in that middle ground where politics and economics meet.

Too often we fail to appreciate the character of our own basic interest as members of particular groups. Even more often we fail to discern the important relation of our own interest to the broad public interest.

We are honored to participate in the forum which this committee provides for examining the broad needs of our economy. In the time allotted I wish:

(1) To review the current situation from a retailer's standpoint and suggest some of the problems we see in it.

(2) To define a set of economic bench marks for measuring our performance over the next few years.

(3) To sketch out a few of the component parts of a peacetime stabilization program for America.

The retail industry, like most American industries, has prospered greatly since the end of war. Dollar sales climbed to an all-time peak in 1946. Over-all they have held up quite well since then.

But the total sales figures disguise important developments. First of all, most of the increased dollar figures since last June reflect higher prices, not higher physical volume. Physical sales have been turning down sharply in some areas and lines. The continued rise in durables is being offset by declines in soft goods and specialties. Second, dollar sales have been leveling off and in some fields have already declined substantially.

In the 12 months preceding April of this year, retailers added 3.2 billion dollars—roughly 45 percent—to the value of inventories. Again, much of this increase reflects higher prices, not physical enlargement. The bulk of lower-quality wartime merchandise has been cleaned out.

Of particular significance, the rate of retail inventory accumulation has fallen off sharply in recent months. Total retail inventories actually declined slightly between April and May. With few exceptions retail shelves are full today. Unless these inventory purchases are replaced by increased consumer buying, manufacturers' orders, output, and employment will fall.

The CHAIRMAN. By increased consumer buying, you mean that it has been increasing and if consumer buying in the next few years stays about the same that will not be sufficient?

Mr. NEY. Yes, Mr. Chairman. Consumer purchases in physical volume are falling off, and the increase has been due to dollar increase.

The CHAIRMAN. Your estimate is there is a falling off in nondurable goods, but there is an increase in durable goods?

Mr. NEY. Yes. However we feel that after consumers have supplied their long-felt wants, we will have a drop in durable goods' purchases too. If we are to sell full American production we will have to have a sustained high consumer demand.

The CHAIRMAN. The only thing I questioned was consumer buying. If you kept up the total present consumer buying for the nondurable and durable goods together, is that not enough?

Mr. NEY. No. I suspect production of automobiles, washing machines, refrigerators, gas ranges and the like will actually increase in numbers of units as we go along.

If that is true, when the present backlog of demand has been filled, we will have to find means of selling this increased production.

The CHAIRMAN. We have now reached the point of $178,000,000,000 in income. It seems that there is considerable doubt about increasing consumer buyings.

Mr. NEY. In dollars perhaps, but not in units.

It is a fact as the price level recedes somewhat, if we maintain the national income in dollars we will have more units to sell.

The CHAIRMAN. You will have more units, not more dollars?

Mr. NEY. That is correct. I am talking strictly in terms of units.

The CHAIRMAN. Thank you.

Mr. NEY. During 1946 retailers repaired, improved, and expanded their facilities considerably. Many new stores were built. But this investment in retail plant seems to be tapering off substantially now. Much of the wartime backlog has been worked off. Equally important, retailers who would still like to expand are discouraged by high construction costs.

Like everyone else, retailers have experienced higher operation costs. But we have also enjoyed the unique experience of operating close to full physical capacity. Thus, despite higher costs, our unit operating costs have held low. This enabled retailers to enjoy exceedingly favorable profits during 1946.

If volume holds up, profits in 1947 should be good, though well below 1946. Retailers have been trimming their margins by passing along part of the fruits of high volume to consumers. There is room for more of this if retailers can have confidence that their volume will hold up and their costs not continue to climb.

The CHAIRMAN. Is there any evidence to support the statement made showing margins are lower?

Mr. NEY. Yes; the first quarter reports show that.

The CHAIRMAN. Who reports those facts?

Mr. NEY. All the companies who have stock listed on the exchanges throughout the country, or whose stocks are dealt in over the counter, must file quarterly financial reports with the Securities and Exchange Commission.

The CHAIRMAN. Who collects the statistics?

Mr. NEY. A private or public agency?

The CHAIRMAN. Well, either.

Mr. NEY. I'm not sure that the SEC does more than collect these financial reports and release them for publication. Perhaps they do a tabulation job too, but I can't say definitely.

The CHAIRMAN. It shows the margins?

Mr. NEY. Yes, the SEC reports show attained margins. They also show total expenses, net profit before taxes and profit after taxes, and total sales, usually compared with the same period last year.

The CHAIRMAN. Are you prepared to furnish that information? You have, I see, at the end of your statement a table. Does that give this?

Mr. NEY. No; the table does not include a tabulation of individual retail operations for the first quarter of this year.

The CHAIRMAN. It shows retail sales in millions of dollars.

Mr. NEY. That is right, in total, not by individual companies.

The CHAIRMAN. It gives an inventory, but it does not give margins.

Mr. NEY. That is correct. Total inventory figures.

The CHAIRMAN. Are you in position to furnish us with those figures?

Mr. NEY. I think your staff or our staff could very easily gather some data from different sources and tabulate it.

The CHAIRMAN. Your staff will work in cooperation with ours?

Mr. NEY. Yes; we will be very glad to.

The CHAIRMAN. Very well, proceed.

Mr. NEY. But retailers today are deeply concerned over the price situation and the dangers inherent in it. They are meeting at one time increased consumer resistance to high prices and resistance from manufacturers to lower prices. The "squeeze" is largely on the retailer. He would like to share it with his suppliers. Recent margin cuts by retailers have been an important factor in holding up sales volume. But retailers badly need help from manufacturers in extending such cuts.

The prosperity of retailing in the past year reflects the unprecedented prosperity of the whole Nation. The difficulties of reconversion, despite all the noise and gripes, have been overcome much faster than most informed observers dared hope.

As a nation we are producing nearly 2½ times as much—measured in current dollars—as in the good prewar year 1939. We are producing nearly four times as much as in the low depression year 1933. About half of this increase since 1939 reflects higher prices. But the other half reflects greater production.

Physical output of American manufacturing and mining industries is running 80 percent above 1939.

Civilian employment is at an all-time peak, above 58,000,000. In fact, from the newspapers recently I learn it has approached 60,000,000. Unemployment is down to 2,000,000, virtually a bedrock minimum for a flexible economy.

These are the statistics of prosperity. These are grounds for self-congratulation. But danger lurks in this prosperity. There is danger of complacence. Signs of it are all around us.

We must not delude ourselves. There is nothing "normal" about the prosperity we have been enjoying. It is propped up in no small measure by temporary stilts. Our central economic problem is to replace those temporary stilts with enduring cornerstones.

One of the temporary stilts, the one which helped retailers to prosper, has been the huge wartime backlog of consumer demand.

This backlog demand has been supported by an unprecedented supply of "liquid assets" in consumer hands, the result of high wartime savings. It has also been supported by an unprecedented expansion of consumer credit. Such credit has increased by 4½ billion dollars since the beginning of 1946. Despite Government restrictions, consumer credit today is more than 10 percent greater than the previous peak in 1941.

Consumer expenditures from war savings and on the basis of credit are "one-shot affairs." When the savings are gone, or when credit expansion slows down, as it must at some point, we must rely upon expenditures from current incomes of people to support a high level of retail sales.

Another important fact is that recent high retail sales have leaned heavily upon a sharply declining rate of national savings. In 1944 savings were running at the unusually high wartime rate of 20 percent of people's incomes. Since then, savings have declined sharply and are about half as high, percentagewise, today.

People have spent more and saved less of their incomes. This helped retail sales. But the savings rate cannot decline indefinitely. This is another temporary prop which must give way.

The CHAIRMAN. Do you know of any reason why the total saved money is less than it was in 1944?

Mr. NEY. If the information I have received is authentic, which I believe it is, the actual total amount of savings is higher, but the rate of savings is declining. People are spending a larger proportion of their income than in the past.

The CHAIRMAN. I am wondering whether the so-called backlog is really contributing to purchasing power over the whole country, whether we are not spending as much as we are saving out of the backlog.

I am wondering whether the purchasing power is largely a question of current economy, or from assets accumulated during wartime savings?

Mr. NEY. My impression is that savings as a total have increased.

The CHAIRMAN. I do not think that savings are anything like they were during the war when you could not buy anything anyhow.

Senator FLANDERS. The total savings——

Mr. NEY (interposing). Yes.

Senator FLANDERS. Has that increased or decreased?

Mr. NEY. That is the question the chairman directed to me.

His impression seems to be it is not as large.

The CHAIRMAN. I do not know.

Mr. NEY. I was under the impression that there was a reduction in the amount of E bonds outstanding, that is, their redemption by the holders in the second quarter was exceeding new purchases.

Dr. HARDY. It fluctuated a good deal in January.

Mr. NEY. My information is that for all the first-half sales exceeded redemptions. But I also understand it really discloses the fact that the financial character of the people holding E bonds has changed. A large segment of the lower income people have cashed their E bonds.

The CHAIRMAN. That is what you believed from your investigation?

Mr. NEY. Yes. In brief, people's incomes must be high enough and prices must be low enough to enable retail customers to purchase the full output of consumer goods which American industry is capable of producing. If incomes are too low or prices are too high, these goods will back up and choke the pipe lines of prosperity.

Here is what we need. As individual consumers work off their pent-up war demands, as they draw down their war savings, we must have a more favorable balance between current incomes and consumer prices. Prices must be low enough so that people, with a normal savings rate, can buy all the goods we can produce.

But recent events have been moving in the opposite direction. The price spree of the last 12 months has meant that most people's incomes have not kept pace with prices. So their real incomes—the value of their money incomes measured in goods and services—have declined.

Senator FLANDERS. Are you sure of that statement that incomes have not kept pace with prices?

You know of specific instances where incomes, which have been the result of labor negotiations, have more than kept pace with prices, but have incomes as a whole kept pace with prices?

Mr. NEY. I have some figures before me which indicate that in one group at least, the industrial workers, which indicate as of the latest figures, the cost of living has increased more than the average weekly earnings.

The CHAIRMAN. Not since prewar days, only in the last year or two.

Mr. NEY. I think that is right. I have these figures. Between last May and this May, the average weekly take-home pay in all manufacturing industries rose from $42.51 to $47.86, or less than 13 percent. In the same period the worker's cost of living rose 18 percent.

The CHAIRMAN. It had been the opposite for the last 2 years before that?

Mr. NEY. That is right. The general belief is that most nonmanufacturing workers fared probably not as well as workers in the manufacturing industry.

The CHAIRMAN. I see.

Mr. NEY. In the face of rising prices, retail sales have been bolstered only because people cut down on current savings and spent out of their war savings. Prosperity built on such props as these cannot endure. Incomes and prices must be brought into better balance.

Another temporary silt under our general economic prosperity has been the heavy backlog of business demands. Since VJ-day business has invested billions in rebuilding inventories. But this is another "one-shot affair." The rate of inventory accumulation has declined sharply in recent months. The pipe lines are filling up. We must find a more permanent substitute for these heavy business expenditures on inventories.

I think the committee may be interested if I may digress a moment to refer to the table at the back of my statement, which indicates the retail inventory in terms of millions of dollars, at the end of May showed a decline of $200,000,000 under the end of April, although normally there would be no seasonal reduction at that time.

It shows no other significant reductions, but the significance is expressed in the next column which recall outstanding orders or commitments.

The amount in June 1946 was $1,048,000,000. At the end of January 1947 the amount was $619,000,000, and at the end of May 1947, $348,000,000.

This would indicate that retail inventories have become virtually replenished at this time.

Business, likewise, has been working off a heavy backlog of repairs, maintenance, and expansion plans. This backlog by now has been well eaten into. High construction costs are discouraging many businessmen from completing the job. We cannot sustain prosperity forever on this diminishing backlog. It must be replaced by a high, steady rate of fresh business expenditures on new capacity. This calls for an expanding peacetime economy.

Still another temporary prop has been our fabulous excess of exports over imports. This so-called "favorable" balance of trade has resulted largely from our financial aid to crippled nations. The need still exists. But obviously it will not go on forever. Eventually we must adjust our imports to our exports. And then we must find an enduring substitute for the expenditures represented by our excess of exports.

The CHAIRMAN. These exports are paid for out of the taxes of the people, and presumably, they would have that much purchasing power if they did not have to be taxed to finance exports.

In other words, the present export excess does not appear to be a credit expansion. It appears to be, rather, the financing of foreign purchases through our taxes?

Mr. NEY. I think that is correct, Senator.

The CHAIRMAN. If it were not for taxes we would have that much more market at home.

Mr. NEY. But a considerable part of our production is now used in the excess of exports over imports. It seems when that is eliminated, or in balance almost, this temporary prop will have to be replaced.

The CHAIRMAN. The American people would not consume 400,000,000 bushels more of wheat. On the other hand, if they were not paying for the 400,000,000 bushels they would have money to pay for more automobiles or something else?

Mr. NEY. Yes, sir.

The CHAIRMAN. It is going to require an adjustment of production rather than a reduction.

Mr. NEY. In brief, we can be thankful for our recent economic prosperity, but we shouldn't be misled by it. We should recognize that it has resulted in part from temporary stimulants. This does not comprise an alarmist's forecast of sharp recession. Most of these stimulants are still at work but they are diminishing. Now is the time to develop more permanent foundations for lasting prosperity.

Everyone seems agreed that "steady high production" is a major goal for our Nation.

But that goal needs more specific definition.

I suggest that for the immediate future we take something like the following set of benchmarks as a measure of satisfactory national economic performance. Obviously, these benchmarks must be raised progressively as we grow.

1. A national income of $185,000,000,000.
2. Civilian employment of 58,000,000.
3. Unemployment no higher than 3,000,000.
4. A consumer price level of about 140—BLS index. This compares with 156 at present, 133 for last June, and an average of 100 for 1936–39.
4. Industrial production over 200—FRB index. This compares with 186 in May 1947, 160 in January 1946, 239 average for the peak war-production year of 1943, and an average of 100 in 1935–39.

These are the benchmarks of a healthy economy in the immediate future. We must not deviate far from them.

Having defined our goal, we must somehow arrive at basic agreement on the methods for getting there.

The CHAIRMAN. You talk about a recession. You propose a 10 percent decrease in price, and at the same time you propose an increase in industrial productivity from 186 to 200. I hope you can do it.

Mr. NEY. We do not think we can do it, sir. We will try to do our part.

The CHAIRMAN. The call is a little higher on industrial production, however.

Mr. NEY. Yes; that is very true. The question is whether at a consumer price level of 140 the country could consume the production shown by an index of 200; that is, whether the country can consume considerably more units on the same national income, if the price level is down. It seems clear that if the price level is too high it discourages consumption.

Obviously, no one has all the answers. This calls for intelligent, vigorous, and constructive debate in Congress, in the executive branch, throughout the Nation. We must make a beginning in this vast enterprise, and we must make it fast.

In mapping a program, we must keep certain guides in mind. High and increasing consumer expenditures must be based upon high and increasing consumer real incomes. This, in turn, required high and increasing business investment expenditures.

It requires also increasingy productivity and a proper sharing of such gains between higher wages, higher profits, and lower prices. It depends, too, on a sound flow of international trade. All groups in the Nation must prosper if any group is to prosper.

Among the most potent economic tools of peacetime are those which the economists call "monetary and fiscal." They include such items as taxes, Government financing methods, the public debt, and banking controls.

Properly handled, these tools obviously can contribute to a healthy economy. If abused, they can injure economic activity. We should pay less attention to taxation as a mere money-gathering device for paying Government expenses and give more attention to its economic effects on any program for achieving and maintaining full production.

It seems well agreed that our national tax structure is badly in need of overhauling. Any revisions should meet the test of encouraging rather than discouraging a full flow of consumer purchasing power and expenditures. Similarly, any revisions should encourage rather than discourage business investment expenditures.

By these tests the progressive system of income taxation now used by the Federal Government is relatively sound today. It is flexible, and the total tax yield grows more than proportionately as national income rises. In the end all taxes fall on individuals anyway. When they are imposed as a result of a deliberate plan they fall more equitably than when the plan is haphazard.

The income tax is the business tax to most retailers, since, according to the 1939 census, 85 percent of the retail stores of the country are operated by independent proprietors or partnerships. Too high rates on income taxation, or too steep progressions tend to discourage business initiative among this group because the most successful businessmen cannot undertake new ventures without giving the bulk of its proceeds in taxes to the Government.

But by these same tests our Federal excise taxes siphon away purchasing power from the millions of families least able to afford it—and the families who comprise the mass of customers in our economy. Excise taxes had a proper role in an inflationary war economy. But they have no place in a sound peacetime stabilization program.

Our present system of excise taxes is selective. Aside from such traditional items as alcohol and tobacco, most of the commodities now subject to excise taxes were selected with the idea of raising as much revenue as possible, and with little regard to the effect the tax would have on the commodity.

Probably all of the present excise-tax rates were imposed under the same theory, which while highly proper in wartime, should not be tolerated in peacetime. The result is that taxed commodities must compete with untaxed commodities for the consumer's dollar. While retailers take the long-run view that excise taxes are taxes on expenditures which cannot be anticipated or controlled they must admit that for the present revenue conditions are such that some revenue must be raised from this form of taxation. During this period, they feel that excise taxes, collected at lower rates on broad classifications of merchandise will produce more revenue than higher rates on selected items. But while admitting the present need they do not depart from their traditional opposition to this form of taxation.

Likewise, our Federal corporation-tax structure requires revision to insure adequate incentive for corporate business investment. In general, more emphasis should be placed upon taxing corporate business earnings when they become individual incomes of the ultimate recipients, and not as earnings in the hands of the corporation.

Corporate earnings are now taxed twice, once as corporate earnings and again when they are distributed to the stockholders in the form of dividends.

The timing as well as the character of changes in our Federal tax structure is important. This influences not only the flow of consumer expenditures but also the question of national-debt retirement. Our complaints and fears about the tremendous national debt are too readily overcome by our natural desire for lower taxes.

Tax revision, therefore, must be examined carefully as to its effects on the economy. Where it will serve as a business stimulant, and so in the long run produce more revenue, it is more than justified, even in the face of the amount of national debt to be retired.

And let's not fool ourselves on one major point.

If our economy slides into substantial recession, we would, and should, pursue a policy of deficit financing. We should prepare early against that contingency, both by reducing Government debt and expenditures now, and by preparing a shelf of well-conceived projects for Government expenditure if and when the necessity arises. We should not allow prejudices to blind us in this matter.

In order to be ready for this, and to bring tax rates down to their proper level, all Federal spending should be carefully examined. Added efficiency in Government operations will, of itself, help to reduce the amounts of revenue needed to conduct Government, and no Government spending, whether from current revenues or from borrowed money, should be done on make-work projects with no long-run economic effects.

Expansions and contractions of credit often have marked effects on the economy. I am not talking now about regulation W. It now has only limited application.

However, since the behavior of the entire economy often hinges on the question of credit no one is likely to take issue with the idea that the whole subject merits careful reexamination in the next year or two.

Prices: Our economy is now largely adjusted to a price structure substantially above the prewar level. It seems likely that only a severe depression would bring prices back to 1939 levels. We should adjust our thinking to that fact.

Consumers particularly should not expect the impossible in retail stores. They have every right to expect reductions in the prices of many goods. But they are deluding themselves to expect prewar prices. They would lose out if their incomes were readjusted to such a price level.

I do not mean to imply that prices should stay at their present inflated levels; they definitely should not.

Again let me digress to say I am not implying that prices are too high. Many of them are; others are not.

We have been on a price spree in this Nation during the past 12 months. And we may well wake up with a painful hang-over. Consumer prices are up 18 percent from last May. Wholesale prices are up 32 percent.

The relative stability of retail and wholesale price index figures for the past 4 months has been encouraging. The situation would be more encouraging if we did not realize that the price level is full of price distortions. The uninformed should be made aware that the total index figure may maintain a stability that becomes freakish when the components are examined.

It is probable that we are near or past the peak of prices. A month ago, I would have said so without reservations. Again let me digress to say that more recent developments have rather upset that conviction.

I would be more wary just now with grain prices acting up and meats already showing marked upward activity as a result.

The maladjustments in the price level are nearly all on the high side. Indeed, I know of none on the low. They are hang-overs of war and probably will disappear only when supply is ample to all needs.

A heavy responsibility rests upon American business to make voluntary price cuts on many items. Labor must help by being moderate in its wage demands and by helping to increase productivity. Farmers must help with all-out production.

The CHAIRMAN. Have you put on any general propaganda among your members to reduce prices where possible?

Mr. NEY. Yes, sir.

The CHAIRMAN. The general profit history of retail industry has been extremely high during the last 3 years. It may be falling off recently.

Has there been any concerted effort on your part to get retailers to mark prices down?

Mr. NEY. Yes; the American Retail Federation and its constituent members made a drive last spring to bring prices down.

Now the Newburyport plan we saw at the outset was impracticable. It was based upon the assumption that they would be able to immediately replenish their stocks at a lower price, which did not turn out to be the case.

On the contrary, the American Retail Federation made suggestions to its membership that they concentrate on items that were staple, where price increases have been the most, and on articles people need the most, and wherever possible to offer goods in fresh, salable condition, in a full range of sizes and colors, at the lowest possible price.

Possibly the chairman and the other members of this committee saw the advertisement of R. H. Macy & Co., of New York. Many other stores ran advertisements to the effect that they thought most prices were too high, and it was thought they could offer merchandise at lower prices and then ultimately replace it at a lower price. Unfortunately, we were not able to replace the merchandise at a lower price. In many commodities the wholesale and manufactured market prices have gone up.

The effort, I think I can say, nationally was not too successful, although retailers generally made a sincere effort, at their own cost, to do it.

We have a file containing a great many advertisements run by retail stores in this connection and if the chairman desires it we can furnish a copy of them.

The CHAIRMAN. Thank you.

Mr. NEY. Your committee can perform an important service by lending its great prestige publicly to the proposition that price reductions are needed to keep goods from piling up on shelves and to keep industrial activity from bogging down.

Your committee possesses the potent instrument of moral suasion which might be used effectively in breaking the price log jam at strategic points. As retailers we urge you to use your full strength.

I think it fair to say that retailers have gone further than most groups in trimming their margins and by passing along price reductions from their suppliers. This attitude is being reflected in current profit statements. The first-quarter statements which I have seen all reflect some loss over the first quarter of last year. In many cases, profit rates are as low as one-half what they were last year.

Retailers need a lot more help from manufacturers in getting prices down if we are to avoid clogging the pipe lines of prosperity.

On this matter of prices, let us not forget that the Government possesses another important tool which we haven't seen enough of lately. I refer to the antitrust laws. Some of my friends in business, and I might say in Congress, have come to regard the antitrust laws as a pernicious form of Government intervention.

They forget that the antitrust laws express the most vital tenet of a free-enterprise system. These laws guarantee the freedom to compete. They stand against monopolistic strangulation of free business. They militate against collusion in pricing, the throttling of expansion and free entry, and curtailment of output.

The Department of Justice, with the full backing of Congress, should ferret out those instances where output is being cut to prop up high monopolistic prices. Restrictions self-imposed by business are just as deadly to our economic system as restrictive policies by Government.

The wage increases of the past year, to the extent that they were unaccompanied by price increases, raised the real purchasing power of the workers and salary earners receiving them.

But many workers in the past 12 months have lost out in the race between wages and the cost of living. Between last May and this May, average weekly take-home pay in all manufacturing industries, as I said earlier, rose from $42.51 to $47.86, or less than 13 percent. In the same period the worker's cost of living rose 18 percent. These figures spell a cut in real income. Most nonmanufacturing workers fared much worse. From the retailer's viewpoint, that's not good business.

In some areas there may well be room for further moderate wage increases which can be absorbed out of high profits or increasing productivity and not reflected in price increases. But certainly there is far less room than there was this past year. Another round of large wage increases this fall and winter would very likely preclude the kind of downward price adjustments which the good health of our economy demands.

We must not forget the central lesson of our Nation's economic history. For decades wages and profits rose while prices declined. This was made possible by progressive increases in productivity. Management and labor must work effectively together to get back on the track of rising productivity. Business in the years ahead must follow the sound and tested policy of dividing the fruits of increased productivity equitably. Production progress should be shared with workers in higher wages, with management in higher profits, and with consumers in lower prices.

We must not overlook, however, the serious present plight of those groups whose income has lagged far behind the rising cost of living. Their situation is not merely one of injustice. Their plight is a serious threat to the Nation's economic health and future.

I refer to the recipients of pensions, to the employees in our lowest-paid industries, to those white-collar workers who have been bypassed in the wage increases of recent years, and to those employed in government. The cuts in real income suffered by many of these people since before the war has been ruthless.

There should be prompt inquiry into the equity of these standards. The fullest possible information should be made available to the public covering not only wages in public service, but the impact of inflation on those who draw benefits. It should be obvious that where groups exist that have not had some form of income increases during the war, the pressures must be intolerable.

The CHAIRMAN. There are a few such groups where I do not think the increases have been particularly large. I notice a summary in regard to teachers who are perhaps one of the groups worse off.

Mr. NEY. Yes, sir.

The CHAIRMAN. They will receive in the next 12 months, the next school year, $400,000,000 more than they got this year from increases granted by States and cities. That was the New York Times report this last week.

I think everybody agrees with the statement, but I also think most of these groups—I think people as a whole—realize exactly what you say, and I think it is being done in part.

Mr. NEY. I think everybody agrees.

The CHAIRMAN. We have increased incomes in the Federal service at least at that rate during the last 2 years.

Mr. NEY. And our Government should refurbish the real incomes of its own employees. We all complain about the apparent inability of government to attract enough competent personnel. With a wage and salary policy that would drive a private business into bankruptcy, how can we expect great efficiency from Government?

The CHAIRMAN. You are able to get Senators and Congressman to run.

Mr. NEY. I am sure it is not for the money. It is undoubtedly for the prestige.

The CHAIRMAN. Proceed.

Mr. NEY. We talk in pious words and with knit brow about America's fine educational system, about education being the fountainhead of democracy. But we are tearing the quality out of our educational system with a blind and stupid wage policy. Underpaid teachers, underpaid policemen and firemen, underpaid public servants generally, cannot give us the efficiency in government we need. And they don't make good customers for American industry, either.

Prosperous farmers make good customers, across retail counters, for the products of American labor and industry. Any blueprint for a prosperous America must include a decent income for the farmer.

The merchant, as you have seen, believes in abundance. For that reason he often has been troubled by policies of government which made it appear that the farmer likes a system which creates scarcity and pinches consumers to reward farmers.

We think it to the everlasting credit of farmers that individuals are hard to find who will support such policies. Indeed, all the farmers I know say that they despise the philosophy of scarcity, that by the very nature of their business they too believe in abundance for all.

What they want out of their efforts to create this abundance is a fair degree of security.

So we think it is up to Congress to devise a system based on good diets, as good as the farmer can produce, for the Nation. What we want is high production and high consumption of farm products to provide the robust strength required for maximum industrial production.

It is a strange thing to see a farmer, wanting more production of the good things that come from the industrial production line, maintain himself by a policy of scarcity that reduces the flow of equally good things from the farm to the city. It makes no sense.

The objective of farm-price parity primarily is to give the farmer a decent income, call it parity income if you will. But the gyrations of the price-parity formula and the operations of the support program which result in feeding potatoes to hogs make the means employed to guarantee income extremely questionable.

The whole present parity principle should be challenged. If there is a better way to insure the farmer a decent living in return for all-out production effort, it should be found. It is equivalent to a crime against nature to destroy food and not give it to people to eat merely because the price drops.

Let prices drop and give the undernourished children of the cities oranges and apples for their pockets and more milk and cereal in their school lunches. If declining prices threaten the farmers' economic security, we should find other ways to care for him even if we are forced to resort to outright income guaranties or subsidies. None of us like the guaranteed income idea. We would resent seeing it extended to business and labor but the farm problem is peculiar. It may be that we will be forced to junk a lot of our ideas before we attain maximum food production and distribution.

In a hungry world let there be no more talk about restricting crops or destroying surpluses to bolster prices. That is the stark economics of bankruptcy, moral, if we accept it, as well as economic.

There are, in addition to these long-range farm problems, some immediate ones. Farm prices today are high. Current reports indicate that they will go higher. This would be unfortunate because higher food prices touch the match to the fuze of higher wage.

The demands of labor and the parity formula work against each other like a jack. Each upward surge becomes the basis for more violent maladjustments of the economy injurious to everyone including farmers and industrial workers. No good to anyone can come from another spurt in food prices. It is encouraging to take note of the fact that their spokesmen are expressing awareness of the fact.

I have been a little perturbed by growing talk that the food price situation may make it necessary to resort again to war-type controls. I regret to hear that such suggestions have been made. Having been more close to that type of control than most people, I do not think they would be effective again. It takes a long time to organize such controls and my war experience convinced me that they work only under the pressure of great emergencies when everyone is in favor of what is being done.

But there are important steps short of such controls that need to be considered and acted upon. First, we should insure against speculative manipulation of farm prices on the commodity exchanges.

Such operations line the pockets of the speculators but only harm the farmer, the consumer, the whole economy.

Second, the Government as the biggest buyer of farm products should be intelligent in its procurement practices. Instead of heaping heavy purchase orders onto the market at times when supply is tightest and prices highest, Government purchases should be timed to have the least disturbing effect. The unfortunate incidents of this type in the past appear usually to have resulted from poor procurement planning.

If our agricultural officials can set aside their traditional phobias of impending surpluses and concentrate on businesslike procurement practices, we can avoid much unpleasantness on the farm price front.

Finally, we should call upon the Nation as individual consumers and as processors and handlers of food to pursue conservation practices while the need exists. If necessary and if it will help avoid more extensive controls, we should employ formal limitation and conservation restrictions. We should control exports to insure that the food is shipped where it will do the most good and in quantities not to exceed necessity.

Next to the broad challenge of full employment, housing is our No. 1 domestic economic problem. The whole institution of private enterprise is on trial as a result. A solution to our housing and general construction problem would go a long way toward providing permanent foundations for prosperity to replace temporary supports.

No other major segment of our economy has contributed more to instability in the past. In the 20 years before the war, the worst year of general industrial production was only 50 percent below the best year. But in housing the worst year was only one-tenth as good as the best year. Such extreme fluctuation in a major industry exerts a tremendously disturbing influence upon our whole economy.

In no other segment of our economy has private enterprise fallen so palpably short of filling the needs of our people. Before the war more than one-third of our nonfarm dwellings were deficient in some major respect. By now the situation has grown worse. The drastic housing shortage since the war ended is in no small measure the result of under building before the war.

During 1946 under the veterans emergency housing program private enterprise housing began a phenomenal come-back from the depressed condition in which the war left it. The outlook for 1947 was promising. But now the housing boom is fading fast. The housing industry has followed its familiar course. It is pricing itself out of the best market it ever enjoyed. As wealthy as our Nation is, the bulk of citizens and particularly the bulk of veterans who need housing most cannot afford homes at current prices.

What's wrong with our housing industry? It makes good rhetoric to blame the Government and unquestionably much responsibility rests there. But the basic sources of trouble are more deeply rooted.

The plain fact is that our housing industry has not kept pace technologically with our other major industries. In our method of building houses we have not yet left the Egyptians far enough behind. Our housing industry needs drastic modernization. We need to learn to build new kinds of houses, to build old kinds in new and more efficient ways, to make and use new kinds of materials.

That will take time but there is no time to waste. Promising new developments in housing are appearing. They need encouragement from every side including Government.

It is well known that our housing industry is badly handicapped by restrictions, largely self-imposed. We hear most about labor restrictions and apparently there are plenty. But we must also open our eyes to other restrictions as well—monopolistic practices in the production and distribution of building materials, collusion in construction bids and protective restrictions of local codes.

Rather than point the finger of blame—which might take many fingers—we should recognize and understand these restrictions for what they are. They reflect the combined effort of all groups in the housing field to protect themselves against depression and the rigors of competition, much as other economic groups seek similar protection through tariffs, barriers to interstate commerce, licensing arrangements and the like. It reflects the philosophy of "abundance through scarcity" which has hampered our whole economy so much in the past.

Until the housing industry, from top to bottom, has reasonable assurance of a stable market in a stable economy, we cannot hope to rid it of these strangling practices.

But all is not gloomy in the housing field. No industry today faces greater markets, greater opportunities for self-advancement and for contributing tremendously to the stability of our whole economy. Housing and construction generally has an opportunity to become a major balance wheel in our economy.

Our Nation badly needs at least one to one and one-quarter million new housing units a year for the next dozen years. But the bulk of them must be low and medium cost to fit the pocketbooks and needs of our people. The opportunities for private enterprise are vast, if they are but recognized and developed.

The CHAIRMAN. I do not want to interrupt too much but could you finish your statement in about 5 minutes?

Mr. NEY. Yes, Mr. Chairman. Suppose I summarize the balance of my statement with permission to have the whole statement appear in the record?

The CHAIRMAN. That will be done.

Mr. NEY. Clearly the first step must be a big cut in construction costs and housing prices. To say that this is impossible may amount to an admission that private-enterprise home building has muffed its last chance. It is the responsibility of all parties in the housing industry to contribute heavily to cost reductions.

Materials producers must cut their prices. Their volume in most instances is at unprecedented levels, their profits appear very good, but their prices are nearly double the 1939 level and have risen 38 percent in the last year.

Labor must raise its productivity rapidly, give a good day's work for a good day's pay, by dropping restrictive practices, by broadening their ranks with capable younger men and by cooperating fully with contractors. Builders must develop and adopt more efficient techniques of building, and must be moderate in their profit charges. Real-estate brokers and financing institutions must add their share to the cost reductions.

The alternative to immediate and substantial cost reductions in housing is for the industry to go through the wringer in the old-fashioned way. As a retailer I feel strongly that costs and prices should be brought down now before they are driven down later by the ruthless pressure of collapsing markets.

I can think of no other sphere in which there is a greater need for the advocates of private enterprise to display enlightened self-interest and the qualities of initiative, imagination, daring, and energy which has made our Nation great. I can think of no other area where blind emotion and unenlightened selfishness can cause private enterprise to fail more miserably and more quickly than in housing.

Our foreign trade picture at present and for some time to come is affected by abnormal factors. We must avoid the emotional and economic pitfalls in this area. We must build now the foundations of an enduring and sound flow of international trade.

At present we are cleaning up the economic rubble of the war. And we are building the economic defenses against another war. We are putting billions into foreign economic aid and apparently must put billions more. This is a costly business. But if we succeed, it will have been a bargain price to pay.

There are many problems ahead for us as a result of the foreign aid program. This is not something we can do in our spare time or with left-over energies. It must command priority of our attention and of our productive effort. The stakes are truly collossal.

Obviously, an important requirement is that we extend such aid judiciously. We must place our dollars and our goods where they will yield the greatest results. We must do it in a way least upsetting to our own economy. But we can't afford to underdo this job.

Looking beyond this immediate period, as I said earlier, however, we must recognize that the tremendous excess of exports we are now experiencing must eventually diminish and vanish. We must not fall into the trap of thinking that a "favorable" balance of trade is a good thing because it fosters full employment and forget that we are not receiving the consumption benefits of that extra employment.

When the period of emergency foreign aid has passed, we must look to a high volume of exports as an important contributing factor to a healthy economy. But it must be balanced with a comparable flow of imports.

In concluding my remarks, I would like to call your attention again to my opening statement that I am unable to say how many retailers would join me in the statement that I have just made.

Parts of this testimony rest upon long and generally accepted policy. Other sections deal with policies never submitted to them for an expression of opinion. The American Retail Federation has been doing considerable research work in recent months with the end in view of submitting an integrated policy program to its membership for approval or disapproval.

What I have said here in a large degree has been drawn from the results of that preparatory research work. It will go forward in somewhat more detailed form to the membership shortly.

It has been offered to you at this time, perhaps prematurely from the viewpoint of our members—because acceptance of your invitation to appear certainly imposed upon me the obligation to bring you the most comprehensive work which we have done.

Thank you very much, sir.

The CHAIRMAN. Thank you, Mr. Ney.

You still do not suggest what we might do about higher prices outside of a change in the Government buying policy, which would have some effect.

You think there should be no price control and probably no ration control. What legislative action would you recommend? Is there any legislative action that could be taken? And what about the continuation of Regulation W?

Mr. NEY. I think regulation W is of much more limited effect now than before when restrictions were taken off of all soft goods and all regular charge accounts. However, it does still cover automobiles and durables.

The CHAIRMAN. It is contained on things customarily sold on the installment plan.

Mr. NEY. Well, the soft-goods business has developed into quite an installment business, prewar.

In the retail industry there is quite a division of opinion about continuing regulation W, or letting it expire.

I think I could personally make a pretty good case on either side of the question.

It seems to me it can be said that any regulation which in a way restrains too inflationary trends should be retained.

On the other hand, it could be contended, that regulation W is only a minor restraining influence or insurance, inasmuch as it was removed from scarce items like men's suits, and from all charge accounts, and that it should not be applied to furniture, much of which is in ample supply.

I have no unified statement to make on regulation W.

The CHAIRMAN. You said at one point the antitrust law should be used more.

In your opinion is there in effect a monopoly holding up prices in certain fields?

Mr. NEY. Senator, I have no example, nor am I able to point my finger at a single industry, but it seems clear that in some cases industry has gotten together to hold up prices or retard production.

The CHAIRMAN. I was wondering whether you thought it was effective or whether there were particular fields where it is not effective.

Mr. NEY. As I say I can point my finger to no particular case.

The CHAIRMAN. The question is, in what particular field does that exist, and what do you recommend that the Government do about it?

Mr. NEY. I have read the testimony of other witnesses before this committee and they referred to the building industry. I have no interest in the building industry other than as a purchaser.

Other witnesses have developed, however, that there are monopolistic trends and efforts in certain segments of that industry. If that is true it seems they could exist in other industries.

The CHAIRMAN. Thank you very much, Mr. Ney.

Mr. NEY. Thank you sir.

(The prepared formal statement submitted by Mr. Ney follows:)

STABILIZED ABUNDANCE

(Testimony of Jerome M. Ney, Fort Smith, Ark., Chairman of the Board of the American Retail Federation)

My name is Jerome M. Ney.

I operate several retail stores, the principal one being the Boston Store Dry Goods Co. of Fort Smith, Ark.

I am chairman of the board of the American Retail Federation. This organization has offices at 1627 K Street NW., Washington, D. C.

The ARF membership includes 20 national retail associations and 33 State councils. A list of these is attached to this statement. Through these constituent groups, ARF represents upward of 500,000 retail stores.

I am not presuming to tell you that I speak unreservedly for 53 State and national associations and 500,000 stores. Indeed, I do not know how many of them would endorse what I am going to say. If you should ask me how they stand on a specific tax bill, a tariff schedule, or a labor measure, I could get you a reasonably accurate answer within a few days.

In this case, I cannot. The subject is too broad. It touches the core of our thinking on economics and political science from every conceivable angle. My appearance here, in a way, represents an effort at self-education with the hope that it may stimulate interest among others in the retail business and contribute to your committee's study of the stabilization problem.

What I am saying is based on my economic and political convictions. I have supported these convictions with the best research help I could get. So far as possible, I have checked my conclusions with associates whose business ability and public spirit I have reason to respect.

My view, I am sure, is conventional, sound, distributive theory. In general, it would be accepted by most retailers. This appearance, however, is made without prejudice to the views of many who will disagree in detail.

The word "planning" occurs from time to time in this paper. I am not afraid of it. But I want to be understood when I use it.

The popular idea of planning is that it involves a system of detailed economic restraints, guides, controls, and supports for business. I am against that sort of strait-jacketing of the economy.

What I am for is the opposite of that.

I simply favor an orderly, integrated handling of the policies and measures, domestic and foreign, necessary to a normal, orderly government. These policies should be constructed with the idea of creating an atmosphere in which business will be encouraged to do what it should do.

It is the function of business to expand steadily and in expanding to pass on to consumers the benefits of greater productivity in the form of higher wages and lower prices. This is the regenerative economic process on which our capitalistic-industrial democracy has grown.

The basic interests of American retailers and consumers are virtually identical. Both benefit from a maximum flow of goods at reasonable prices. They suffer alike when some economic maladjustment slows down production.

Retailers and consumers have a common stake, then, in the goal of the Employment Act of 1946. That goal is a steady high production. This, in turn, should result, as in the past, in even better wage standards and in lower prices.

There is no reason to become defeatists and accept a reversal in trend as inevitable. The job is to apply our intelligence open-mindedly to planning well-timed stimulations that will result in the creation of more goods in an economy characterized by an always widening productive potential.

This is not the sort of thing that just happens. It cannot be done by slogans and phrases. It is an engineering, not a propaganda, problem. We must, in peace, strive and work as hard for full production and stabilization as we did in war.

We dare not forget that failure to keep the economic flywheel in proper motion makes terrific exertions necessary in order to build up speed again. This is sheer economic waste. A fraction of what we spend in regaining lost speed, applied at the proper time, would give great gains where we record losses.

Your committee has a vast opportunity and a heavy responsibility. It is your task to provide the Nation, the individual Members of Congress, and particularly the specialized committees of Congress, with a balanced picture of our national economic needs.

Under your guidance, legislative actions on specific economic problems must be dovetailed into a well-conceived pattern that fits these broad needs. This the joint committee is in a position to accomplish.

The Employment Act also places a heavy responsibility upon every economic group in our Nation to promote the general public interest better than in the past.

As individuals and as members of special interest groups, we compete for bigger shares of the Nation's output. This competition is healthy. It represents one of our basic freedoms. But too often we abuse this freedom, particularly when we compete in that middle ground where politics and economics meet.

Too often we fail to appreciate the character of our own basic interest as members of particular groups. Even more often we fail to discern the important relation of our own interest to the broad public interest.

We are honored to participate in the forum which this committee provides for examining the broad needs of our economy. In the time allotted I wish—

(1) To review the current situation from a retailer's standpoint and suggest some of the problems we see in it;

(2) To define a set of economic bench marks for measuring our performance over the next few years;

(3) To sketch out a few of the component parts of a peacetime stabilization program for America.

THE SITUATION IN RETAILING

The retail industry, like most American industries, has prospered greatly since the end of war. Dollar sales climbed to an all-time peak in 1946. Over-all they have held up quite well since then.

But the total sales figures disguise important developments. First of all, most of the increased dollar figures since last June reflect higher prices, not higher physical volume. Physical sales have been turning down sharply in some areas and lines. The continued rise in durables is being offset by declines in soft goods and specialties. Second, dollar sales have been leveling off and in some fields have already declined substantially.

In the 12 months preceding April of this year, retailers added 3.2 billion dollars (roughly 45 percent) [1] to the value of inventories. Again, much of this increase reflects higher prices, not physical enlargement. The bulk of lower quality wartime merchandise has been cleaned out.

Of particular significance, the rate of retail inventory accumulation has fallen off sharply in recent months. Total retail inventories actually declined slightly between April and May. With few exceptions retail shelves are full today. Unless these inventory purchases are replaced by increased consumer buying, manufacturers' orders, output, and employment will fall.

During 1946 retailers repaired, improved, and expanded their facilities considerably. Many new stores were built. But this investment in retail plant seems to be tapering off substantially now. Much of the wartime backlog has been worked off. Equally important, retailers who would still like to expand are discouraged by high construction costs.

Like everyone else, retailers have experienced higher operation costs. But we have also enjoyed the unique experience of operating close to full physical capacity. Thus, despite higher costs, our unit operating costs have held low. This enabled retailers to enjoy exceedingly favorable profits during 1946.

If volume holds up, profits in 1947 should be good, though well below 1946. Retailers have been trimming their margins by passing along part of the fruits of high volume to consumers. There is room for more of this if retailers can have confidence that their volume will hold up and their costs not continue to climb.

But retailers today are deeply concerned over the price situation and the dangers inherent in it. They are meeting at one time increased consumer resistance to high prices and resistance from manufacturers to lower prices. The "squeeze" is largely on the retailer. He would like to share it with his suppliers. Recent margin cuts by retailers have been an important factor in

[1] Department of Commerce, Survey of Current Business, June 1947.

holding up sales volume. But retailers badly need help from manufacturers in extending such cuts.

THE GENERAL ECONOMIC SITUATION

The prosperity of retailing in the past year reflects the unprecedented prosperity of the whole Nation. The difficulties of reconversion, despite all the noise and gripes, have been overcome much faster than most informed observers dared hope.

As a Nation, we are producing nearly 2½ times[2] as much (measured in current dollars) as in the good prewar year 1939. We are producing nearly four times as much as in the low depression year 1933. About half of this increase since 1939 reflects higher prices. But the other half reflects greater production.

Physical output of American manufacturing and mining industries is running 80 percent[3] above 1939.

Civilian employment is at an all-time peak, above 58,000,000.[4] Unemployment is down to 2,000,000, virtually a bedrock minimum for a flexible economy.

STOP, LOOK, AND LISTEN

These are the statistics of prosperity. These are grounds for self-congratulation. But danger lurks in this prosperity. There is danger of complacence. Signs of it are all around us.

We must not delude ourselves. There is nothing "normal" about the prosperity we have been enjoying. It is propped up in no small measure by temporary stilts. Our central economic problem is to replace those temporary stilts with enduring cornerstones.

One of the temporary stilts, the one which helped retailers to prosper, has been the huge wartime backlog of consumer demand.

This backlog demand has been supported by an unprecedented supply of liquid assets in consumer hands, the result of high wartime savings. It has also been supported by an unprecedented expansion of consumer credit. Such credit has increased by 4½ billion dollars[5] since the beginning of 1946. Despite Government restrictions, consumer credit today is more than 10 percent greater than the previous peak in 1941.

Consumer expenditures from war savings and on the basis of credit are "one-shot affairs." When the savings are gone or when credit expansion slows down, as it must at some point, we must rely upon expenditures from current incomes of people to support a high level of retail sales.

Another important fact is that recent high retail sales have leaned heavily upon a sharply declining rate of national savings. In 1944 savings were running at the unusually high wartime rate of 20 percent of people's incomes.[6] Since then, savings have declined sharply and are only about half as high, percentage-wise, today.

People have spent more and saved less of their incomes. This helped retail sales. But the savings rate cannot decline indefinitely. This is another temporary prop which must give way.

In brief, people's incomes must be high enough and prices must be low enough to enable retail customers to purchase the full output of consumer goods which American industry is capable of producing. If incomes are too low or prices are too high, these goods will back up and choke the pipe lines of prosperity.

Here is what we need. As individual consumers work off their pent-up war demands, as they draw down their war savings, we must have a more favorable balance between current incomes and consumer prices. Prices must be low enough that people, with a normal savings rate, can buy all the goods we can produce.

But recent events have been moving in the opposite direction. The price spree of the last 12 months has meant that most people's incomes have not kept pace with prices. So their real incomes (the value of their money incomes measured in goods and services) have declined.

In the face of rising prices, retail sales have been bolstered only because people cut down on current savings and spent out of their war savings. Prosperity

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[2] Department of Commerce.
[3] Federal Reserve Board Index of Physical Industrial Output.
[4] Department of Commerce.
[5] Federal Reserve Board.
[6] Department of Commerce.

built on such props as these cannot endure. Incomes and prices must be brought into better balance.

Another temporary stilt under our general economic prosperity has been the heavy backlog of business demands. Since VJ-day business has invested billions in rebuilding inventories. But this is another "one-shot affair." The rate of inventory accumulation has declined sharply in recent months. The pipe lines are filling up. We must find a more permanent substitute for these heavy business expenditures on inventories.

Business likewise has been working off a heavy backlog of repairs, maintenance, and expansion plans. This backlog by now has been well eaten into. High construction costs are discouraging many businessmen from completing the job. We cannot sustain prosperity forever on this diminishing backlog. It must be replaced by a high, steady rate of fresh business expenditures on new capacity. This calls for an expanding peacetime economy.

Still another temporary prop has been our fabulous excess of exports over imports. This so-called favorable balance of trade has resulted largely from our financial aid to crippled nations. The need still exists. But obviously it will not go on forever. Eventually we must adjust our imports to our exports. And then we must find an enduring substitute for the expenditures represented by our excess of exports.

In brief, we can be thankful for our recent economic prosperity but we shouldn't be misled by it. We should recognize that it has resulted in part from temporary stimulants. This does not comprise an alarmist's forecast of sharp recession. Most of these stimulants are still at work but they are diminishing. Now is the time to develop more permanent foundations for lasting prosperity.

DEFINING OUR ECONOMIC GOAL

Everyone seems agreed that steady high production is a major goal for our Nation. But the goal needs more specific definition.

I suggest that for the immediate future we take something like the following set of bench marks as a measure of satisfactory national economic performance. Obviously, these bench marks must be raised progressively as we grow.

1. A national income of $185,000,000,000.
2. Civilian employment of 58,000,000.
3. Unemployment no higher than 3,000,000.
4. A consumer price level of about 140 (BLS Index) (this compares with 156 at present, 133 for last June, and an average of 100 for 1936–39).
5. Industrial production over 200 (FRB Index) (this compares with 186 in May 1947, 160 in January 1946, 239 average for the peak war production year of 1943, and an average of 100 in 1935–39).

These are the bench marks of a healthy economy in the immediate future. We must not deviate far from them.

A PROPOSED PROGRAM FOR ECONOMIC STABILITY

Having defined our goal, we must somehow arrive at basic agreement on the methods for getting there.

Obviously, no one has all the answers. This calls for intelligent, vigorous, and constructive debate in Congress, in the executive branch, throughout the Nation. We must make a beginning in this vast enterprise and we must make it fast.

In mapping a program, we must keep certain guides in mind. High and increasing consumer expenditures must be based upon high and increasing consumer real incomes. This, in turn, requires high and increasing business investment expenditures.

It requires also increasing productivity and a proper sharing of such gains between higher wages, higher profits, and lower prices. It depends, too, on a sound flow of international trade. All groups in the Nation must prosper if any group is to prosepr.

TAXES AND CREDIT CONTROLS

Among the most potent economic tools of peacetime are those which the economists call monetary and fiscal. They include such items as taxes, Government financing methods, the public debt, and banking controls.

Properly handled, these tools obviously can contribute to a health economy. If abused, they can injure economic activity. We should pay less attention to taxation as a mere money gathering device for paying Government expenses, and give more attention to its economic effects on any program for achieving and maintaining full production.

It seems well agreed that our national tax structure is badly in need of overhauling. Any revisions should meet the test of encouraging rather than discouraging a full flow of consumer purchasing power and expenditures. Similarly, any revisions should encourage rather than discourage business investment expenditures.

By these tests the progressive system of income taxation now used by the Federal Government is relatively sound today. It is flexible, and the total tax yield grows more than proportionately as national income rises. In the end all taxes fall on individuals anyway. When they are imposed as a result of a deliberate plan they fall more equitably than when the plan is haphazard.

The income tax is the business tax to most retailers, since, according to the 1939 census, 85 percent of the retail stores of the country are operated by independent proprietors or partnerships. Too high rates on income taxation, or too steep progressions tend to discourage business initiative among this group because the most successful businessmen cannot undertake new venture without giving the bulk of its proceeds in taxes to the Government.

But by these same tests our Federal excise taxes siphon away purchasing power from the millions of families least able to afford it—and the families who comprise the mass of customers in our economy. Excise taxes had a proper role in an inflationary war economy. But they have no place in a sound peacetime stabilization program.

Our present system of excise taxes is selective. Aside from such traditional items as alcohol and tobacco, most of the commodities now subject to excise taxes were selected with the idea of raising as much revenue as possible, and with little regard to the effect the tax woud have on the commodity.

Probably all of the present excise-tax rates were imposed under the same theory, which while highly proper in wartime, should not be tolerated in peacetime. The result is that taxed commodities must compete with untaxed commodities for the consumer's dollar. While retailers take the long-run view that excise taxes are taxes on expenditures which cannot be anticipated or controlled they must admit that for the present revenue conditions are such that some revenue must be raised from this form of taxation. During this period, they feel that excise taxes, collected at lower rates on broad classifications of merchandise will produce more revenue than higher rates on selected items. But while admitting the present need they do not depart from their traditional opposition to this form of taxation.

Likewise, our Federal corporation tax structure requires revision to insure adequate incentive for corporate business investment. In general, more emphasis should be placed upon taxing corporate business earnings when they become individual incomes of the ultimate recipients, and not as earnings in the hands of the corporation.

Corporate earnings are now taxed twice, once as corporate earnings and again when they are distributed to the stockholders in the form of dividends.

The timing as well as the character of changes in our Federal tax structure is important. This influences not only the flow of consumer expenditures but also the question of national debt retirement. Our complaints and fears about the tremendous national debt are too readily overcome by our natural desire for lower taxes.

Tax revision, therefore, must be examined carefully as to its effects on the economy. Where it will serve as a business stimulant, and so in the long run produce more revenue, it is more than justified, even in the face of the amount of national debt to be retired.

And let's not fool ourselves on one major point.

If our economy slides into substantial recession, we would, and should, pursue a policy of deficit financing. We should prepare early against that contingency, both by reducing Government debt and expenditures now, and by preparing a shelf of well-conceived projects for Government expenditure if and when the necessity arises. We should not allow prejudices to blind us in this matter.

In order to be ready for this, and to bring tax rates down to their proper level, all Federal spending should be carefully examined. Added efficiency in Government operations will, of itself, help to reduce the amounts of revenue needed to conduct Government, and no Government spending, whether from current revenues or from borrowed money, should be done on make-work projects with no long-run economic effects.

Expansions and contractions of credit often have marked effects on the economy. I am not talking now about regulation W. It now has only limited application.

However, since the behavior of the entire economy often hinges on the question of credit no one is likely to take issue with the idea that the whole subject merits careful reexamination in the next year or two.

PRICES

Our economy is now largely adjusted to a price structure substantially above the prewar level. It seems likely that only a severe depression would bring prices back to 1939 levels. We should adjust our thinking to that fact.

Consumers particularly should not expect the impossible in retail stores. They have every right to expect reductions in the prices of many goods. But they are deluding themselves to expect prewar prices. They would lose out if their incomes were readjusted to such a price level.

I do not mean to imply that prices should stay at their present inflated levels, they definitely should not.

We have been on a price spree in this Nation during the past 12 months. And we may well wake up with a painful hang-over. Consumer prices are up 18 percent from last May. Wholesale prices are up 32 percent.[7]

The relative stability of retail and wholesale price index figures for the past 4 months has been encouraging. The situation would be more encouraging if we did not realize that the price level is full of price distortions. The uninformed should be made aware that the total index figure may maintain a stability that becomes freakish when the components are examined.

It is probable that we are near or past the peake of prices. A month ago I would have said so without reservations. I would be more wary just now with grain prices acting up and meats already showing marked upward activity as a result.

The maladjustments in the price level are nearly all on the high side. Indeed, I know of none on the low. They are the hang-overs of war and probably will disappear only when supply is ample to all needs.

A heavy responsibility rests upon American business to make voluntary price cuts on many items. Labor must help by being moderate in its wage demands and by helping to increase productivity. Farmers must help with all-out production.

Your committee can perform an important service by lending its great prestige publicly to the proposition that price reductions are needed to keep goods from piling up on shelves and to keep industrial activity from bogging down.

Your committee possesses the potent instrument of moral suasion which might be used effectively in breaking the price log-jam at strategic points. As retailers we urge you to use your full strength.

I think it fair to say that retailers have gone further than most groups in trimming their margins and by passing along price reductions from their suppliers. This attitude is being reflected in current profit statements. The first quarter statements which I have seen all reflect some loss over the first quarter of last year. In many cases profit rates are as low as one-half what they were last year.

Retailers need a lot more help from manufacturers in getting prices down if we are to avoid clogging the pipe lines of prosperity.

On this matter of prices, let us not forget that the Government possesses another important tool which we haven't seen enough of lately. I refer to the antitrust laws. Some of my friends in business, and I might say in Congress, have come to regard the antitrust laws as a pernicious form of Government intervention.

They forget that the antitrust laws express the most vital tenet of a free enterprise system. These laws guarantee the freedom to compete. They stand against monopolistic strangulation of free business. They militate against collusion in pricing, the throttling of expansion and free entry, and curtailment of output.

The Department of Justice, with the full backing of Congress, should ferret out those instances where output is being cut to prop up high monopolistic prices. Restrictions self-imposed by business are just as deadly to our economic system as restrictive policies by Government.

[7] Bureau of Labor Statistics.

WAGES

The wage increases of the past year, to the extent that they were unaccompanied by price increases, raised the real purchasing power of the workers and salary earners receiving them.

But many workers in the past 12 months have lost out in the race between wages and the cost of living. Between last May and this May, average weekly take-home pay in all manufacturing industries, as I said earlier, rose from $42.51 to $47.86, or less than 13 percent. In the same period the worker's cost of living rose 18 percent.[8] These figures spell a cut in real income. Most nonmanufacturing workers fared much worse. From the retailer's viewpoint, that's not good business.

In some areas there may well be room for further moderate wage increases which can be absorbed out of high profits or increasing productivity and not reflected in price increases. But certainly there is far less room than there was this past year. Another round of large wage increases this fall and winter would very likely preclude the kind of downward price adjustments which the good health of our economy demands.

We must not forget the central lesson of our Nation's economic history. For decades wages and profits rose while prices declined. This was made possible by progressive increases in productivity. Management and labor must work effectively together to get back on the track of rising productivity. Business in the years ahead must follow the sound and tested policy of dividing the fruits of increased productivity equitably. Production progress should be shared with workers in higher wages, with management in higher profits, and with consumers in lower prices.

We must not overlook, however, the serious present plight of those groups whose income has lagged far behind the rising cost of living. Their situation is not merely one of injustice. Their plight is a serious threat to the Nation's economic health and future.

I refer to the recipients of pensions, to the employees in our lowest-paid industries, to those white-collar workers who have been bypassed in the wage increases of recent years, and to those employed in Government. The cuts in real income suffered by many of these people since before the war has been ruthless.

There should be prompt inquiry into the equity of these standards. The fullest possible information should be made available to the public covering not only wages in public service but the impact of inflation on those who draw benefits. It should be obvious that where groups exist that have not had some form of income increases during the war, the pressures must be intolerable.

And our Government should refurbish the real incomes of its own employees. We all complain about the apparent inability of Government to attract enough competent personnel. With a wage and salary policy that would drive a private business into bankruptcy, how can we expect great efficiency from Government?

We talk in pious words and with knit brow about America's fine educational system, about education being the fountainhead of democracy. But we are tearing the quality out of our educational system with a blind and stupid wage policy. Underpaid teachers, underpaid policemen and firemen, underpaid public servants generally, cannot give us the efficiency in Government we need. And they don't make good customers for American industry, either.

AGRICULTURE

Prosperous farmers make good customers, across retail counters, for the products of American labor and industry. Any blueprint for a prosperous America must include a decent income for the farmer.

The merchant, as you have seen, believes in abundance. For that reason he often has been troubled by policies of Government which made it appear that the farmer likes a system which creates scarcity and pinches consumers to reward farmers.

We think it to the everlasting credit of farmers that individuals are hard to find who will support such policies. Indeed, all the farmers I know say that they despise the philosophy of scarcity, that by the very nature of their business they too believe in abundance for all. What they want out of their efforts to create this abundance is a fair degree of security.

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[8] Consumer Price Index, Bureau of Labor Statistics, Department of Labor.

So we think it is up to Congress to devise a system based on good diets, as good as the farmer can produce, for the Nation. What we want is high production and high consumption of farm products to provide the robust strength required for maximum industrial production.

It is a strange thing to see a farmer wanting more production of the good things that come from the industrial production line, maintained himself by a policy of scarcity that reduces the flow of equally good things from the farm to the city. It makes no sense.

The objective of farm-price parity primarily is to give the farmer a decent income, call it parity income if you will. But the gyrations of the price parity formula and the operations of the support program which result in feeding potatoes to hogs make the means employed to guarantee income extremely questionable.

The whole present parity principle should be challenged. If there is a better way to insure the farmer a decent living in return for all out production effort, it should be found. It is equivalent to a crime against nature to destroy food and not give it to people to eat merely because the price drops.

Let prices drop and give the undernourished children of the cities oranges and apples for their pockets and more milk and cereal in their school lunches. If declining prices threaten the farmers' economic security, we should find other ways to care for him even if we are forced to resort to outright income guaranties or subsidies. None of us like the guaranteed-income idea. We would resent seeing it extended to business and labor, but the farm problem is peculiar. It may be that we will be forced to junk a lot of our ideas before we attain maximum food production and distribution.

In a hungry world let there be no more talk about restricting crops or destroying surpluses to bolster prices. That is the stark economics of bankruptcy, moral, if we accept it, as well as economic.

There are, in addition to these long-range farm problems, some immediate ones. Farm prices today are high. Current reports indicate that they will go higher. This would be unfortunate because higher food prices touch the match to the fuse of higher wage demands.

The demands of labor and the parity formula work against each other like a jack. Each upward surge becomes the basis for more violent maladjustments of the economy injurious to everyone including farmers and industrial workers. No good to anyone can come from another spurt in food prices. It is encouraging to take note of the fact that their spokesmen are expressing awareness of the fact.

I have been a little perturbed by growing talk that the food price situation may make it necessary to resort again to war-type controls. I regret to hear that such suggestions have been made. Having been more close to that type of control than most people, I do not think they would be effective again. It takes a long time to organize such controls and my war experience convinced me that they work only under the pressure of great emergencies when everyone is in favor of what is being done.

But there are important steps short of such controls that need to be considered and acted upon. First, we should insure against speculative manipulation of farm prices on the commodity exchanges.

Such operations line the pockets of the speculators but only harm the farmer, the consumer, the whole economy.

Second, the Government as the biggest buyer of farm products should be intelligent in its procurement practices. Instead of heaping heavy purchase orders onto the market at times when supply is tightest and prices highest, Government purchases should be timed to have the least disturbing effect. The unfortunate incidents of this type in the past appear usually to have resulted from poor procurement planning.

If our agricultural officials can set aside their traditional phobias of "impending surpluses" and concentrate on businesslike procurement practices, we can avoid much unpleasantness on the farm price front.

Finally, we should call upon the Nation as individual consumers and as processors and handlers of food to pursue conservation practices while the need exists. If necessary and if it will help avoid more extensive controls, we should employ formal limitation and conservation restrictions. We should control exports to insure that the food is shipped where it will do the most good and in quantities not to exceed necessity.

HOUSING

Next to the broad challenge of full employment, housing is our No. 1 domestic economic problem. The whole institution of private enterprise is on trial as a result. A solution to our housing and general construction problem would go a long way toward providing permanent foundations for prosperity to replace temporary supports.

No other major segment of our economy has contributed more to instability in the past. In the 20 years before the war, the worst year of general industrial production was only 50 percent below the best year. But in housing, the worst year was only one-tenth as good as the best year. Such extreme fluctuation in a major industry exerts a tremendously disturbing influence upon our whole economy.

In no other segment of our economy has private enterprise fallen so palpably short of filling the needs of our people. Before the war more than one-third of our nonfarm dwellings were deficient in some major respect.[9] By now the situation has grown worse. The drastic housing shortage since the war ended is in no small measure the result of underbuilding before the war.

During 1946, under the veterans' emergency housing program, private-enterprise housing began a phenomenal come-back from the depressed condition in which the war left it. The outlook for 1947 was promising. But now the housing boom as fading fast. The housing industry has followed its familiar course. It is pricing itself out of the best market it ever enjoyed. As wealthy as our Nation is, the bulk of citizens, and particularly the bulk of veterans who need housing most, cannot afford homes at current prices.

What's wrong with our housing industry? It makes good rhetoric to blame the Government, and unquestionably much responsibility rests there. But the basic sources of trouble are more deeply rooted.

The plain fact is that our housing industry has not kept pace technologically with our other major industries. In our method of building houses we have not yet left the Egyptians far enough behind. Our housing industry needs drastic modernization. We need to learn to build new kinds of houses, to build old kinds in new and more efficient ways, to make and use new kinds of materials.

That will take time, but there is no time to waste. Promising new developments in housing are appearing. They need encouragement from every side, including Government.

It is well known that our housing industry is badly handicapped by restrictions, largely self-imposed. We hear most about labor restrictions, and apparently there are plenty. But we must also open our eyes to other restrictions as well—monopolistic practices in the production and distribution of building materials, collusion in construction bids, and protective restrictions of local codes.

Rather than point the finger of blame (which might take many fingers), we should recognize and understand these restrictions for what they are. They reflect the combined effort of all groups in the housing field to protect themselves against depression and the rigors of competition, much as other economic groups seek similar protection through tariffs, barriers to interstate commerce, licensing arrangements, and the like. It reflects the philosophy of "abundance through scarcity" which has hampered our whole economy so much in the past.

Until the housing industry, from top to bottom, has reasonable assurance of a stable market in a stable economy, we cannot hope to rid it of these strangling practices.

But all is not gloomy in the housing field. No industry today faces greater markets, greater opportunities for self-advancement, and for contributing tremendously to the stability of our whole economy. Housing and construction generally has an opportunity to become a major balance wheel in our economy.

Our Nation badly needs at least 1 to 1¼ million new housing units a year for the next dozen years. But the bulk of them must be low and medium cost to fit the pocketbooks and needs of our people. The opportunities for private enterprise are vast, if they are but recognized and developed.

Clearly the first step must be a big cut in construction costs and housing prices. To say that this is impossible may amount to an admission that private-enterprise home building has muffed its last chance. It is the responsibility of all parties in the housing industry to contribute heavily to cost reductions.

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[9] Bureau of Census, National Housing Agency.

Materials producers must cut their prices. Their volume in most instances is at unprecedented levels,[10] their profits appear very good,[10] but their prices are nearly double the 1939 level and have risen 38 percent in the last year.[11]

Materials distributors must contribute.

Labor must raise its productivity rapidly, give a good day's work for a good day's pay, by dropping restrictive practices, by broadening their ranks with capable younger men, and by cooperating fully with contractors. Builders must develop and adopt more efficient techniques of building, and must be moderate in their profit charges. Real-estate brokers and financing institutions must add their share to the cost reductions.

The alternative to immediate and substantial cost reductions in housing is for the industry to go through the wringer in the old-fashioned way. As a retailer, I feel strongly that costs and prices should be brought down now before they are driven down later by the ruthless pressure of collapsing markets.

I can think of no other sphere in which there is a greater need for the advocates of private enterprise to display enlightened self-interest and the qualities of initiative, imagination, daring, and energy which has made our Nation great. I can think of no other area where blind emotion and unenlightened selfishness can cause private enterprise to fail more miserably and more quickly than in housing.

INTERNATIONAL TRADE

Our foreign-trade picture at present and for some time to come is affected by abnormal factors. We must avoid the emotional and economic pitfalls in this area. We must build now the foundations of an enduring and sound flow of international trade.

At present we are cleaning up the economic rubble of the war. And we are building the economic defenses against another war. We are putting billions into foreign economic aid and apparently must put billions more. This is a costly business. But if we succeed, it will have been a bargain price to pay.

There are many problems ahead for us as a result of the foreign-aid program. This is not something we can do in our spare time or with left-over energies. It must command priority of our attention and of our productive effort. The stakes are truly colossal.

Obviously, an important requirement is that we extend such aid judiciously. We must place our dollars and our goods where they will yield the greatest results. We must do it in a way least upsetting to our own economy. But we can't afford to underdo this job.

Looking beyond this immediate period, as I said earlier, we must recognize, however, that the tremendous excess of exports we are now experiencing must eventually diminish and vanish. We must not fall into the trap of thinking that a "favorable" balance of trade is a good thing because it fosters full employment and forget that we are not receiving the consumption benefits of that extra employment.

When the period of emergency foreign aid has passed, we must look to a high volume of exports as an important contributing factor to a healthy economy. But it must be balanced with a comparable flow of imports.

CONCLUSION

In concluding my remarks, I would like to call your attention again to my opening statement that I am unable to say how many retailers would join me in the statement that I have just made.

Parts of this testimony rest upon long and generally accepted policy. Other sections deal with policies never submitted to them for an expression of opinion. The American Retail Federation has been doing considerable research work in recent months with the end in view of submitting an integrated policy program to its membership for approval or disapproval.

What I have said here in a large degree has been drawn from the results of that preparatory research work. It will go forward in somewhat more detailed form to the membership shortly.

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[10] Department of Commerce.
[11] Bureau of Labor Statistics.

It has been offered to you at this time (perhaps prematurely from the viewpoint of our members) because acceptance of your invitation to appear certainly imposed upon me the obligation to bring you the most comprehensive work which we have done.

NATIONAL ASSOCIATIONS

American National Retail Jewelers Association.
Association of Credit Apparel Stores, Inc.
Cooperative Food Distributors of America.
Institute of Distribution.
Limited Price Variety Stores Association.
Mail Order Association of America.
National Association of Chain Drug Stores.
National Association of Credit Jewelers.
National Association of Food Chains.
National Association of Music Merchants.
National Association of Retail Clothiers and Furnishers.
National Association of Retail Druggists.
National Association of Shoe Chain Stores.
National Retail Dry Goods Association.
National Retail Farm Equipment Association.
National Retail Furniture Association.
National Retail Hardware Association.
National Shoe Retailers Association.
National Stationers Association.
Retail Credit Institute of America.

STATE ASSOCIATIONS

California Retailers Association.
Colorado Retailers Association.
Delaware Retailers' Council.
Florida State Retailers Association.
Georgia Mercantile Association.
Illinois Federation of Retail Associations.
Associated Retailers of Indiana.
Associated Retailers of Iowa.
Kentucky Merchants Association.
Louisiana Retailers Associaiton.
State Merchants Association, Inc. (Maine).
Maryland Council of Retail Merchants.
Massachusetts Council of Retail Merchants.
Michigan Retailers Association.
Mississippi Retailers Association.
Missouri Retailers Association.
Nevada Retail Merchants Association.
New Hampshire Council of Retail Merchants.
Retail Merchants Association of New Jersey.
New York State Council of Retail Merchants.
North Carolina Merchants Association, Inc.
Ohio State Council of Retail Merchants.
Oklahoma Retail Merchants Association.
Oregon State Retailers' Council.
Pennsylvania Retailers Association.
Rhode Island Retail Association.
Retail Merchants Association of Tennessee.
Retail Merchants Association of Texas.
Retail Merchants Association of South Dakota.
Utah Council of Retailers.
Vermont Council of Retail Merchants.
Retail Merchants Association of Virginia.
West Virginia Retailers Association, Inc.

The economic situation

	1939	1941	1944	1946		1947				
				January	June	January	February	March	April	May
Retail sales: [1]										
Millions of dollars	3,503	4,624	5,790	6,695	7,736	7,838	7,464	8,746	8,819	9,275
Index (1935–39=100)	108.7	143.5	179.7	237.6	238.7	276.2	280.6	277.6	274.2	274.1
Retail inventories [1] millions of dollars	----------	----------	----------	5,974	7,114	8,943	9,441	9,954	9,939	9,763
Outstanding orders [2] millions of dollars (296 department stores)	----------	----------	----------	899	1,048	619	603	485	387	348
Consumer credit [2] millions of dollars	7,981	9,899	5,781	6,427	7,911	9,783	9,728	10,049	10,256	----------
Industrial production,[2] index (1935–39=100)	109	162	235	160	170	189	189	189	186	186
Employment,[1] thousands	46,930	49,090	51,780	51,020	56,360	55,390	55,520	56,060	56,700	58,330
Unemployment,[1] thousands	7,300	5,010	840	2,300	2,570	2,400	2,490	2,330	2,420	1,960
Wages, weekly: [3] All manufacturing, dollars	23.86	29.58	46.08	41.15	43.31	47.10	47.29	47.72	47.50	48.86
Consumer prices,[3] index (1935–39=100):										
All items	99.4	105.2	125.5	129.9	133.3	153.3	153.2	156.3	156.1	155.8
Food	95.2	105.5	136.1	141.0	145.6	183.8	182.3	189.5	188.0	187.6
Clothing	100.5	106.3	138.8	149.7	157.2	179.0	181.5	184.3	184.6	184.4
Housefurnishings	101.3	107.3	136.4	148.8	156.1	179.1	180.8	182.3	182.4	181.6
Wholesale prices,[3] index (1935–39=100):										
All commodities	77.1	87.3	104.0	107.1	112.9	141.5	144.5	149.5	147.7	146.9
Food	70.4	82.7	104.9	107.3	112.9	156.2	162.0	167.6	162.4	159.8
Building materials	90.5	103.2	115.5	120.0	129.9	169.7	174.8	177.5	178.8	177.0
National income, billions of dollars	70.8	96.9	160.7	152.9	158.5	169.4	177.5	180.5	----------	----------
Expenditures on new plant equipment: [4] Commercials and miscellaneous, millions of dollars	1,850	2,490	970	580	740	900	1,080	900	940	----------

[1] U. S. Department of Commerce.
[2] Federal Reserve Board.
[3] U. S. Department of Labor.
[4] Securities and Exchange Commission.

The CHAIRMAN. Our next witness is Dr. Arthur R. Upgren.

STATEMENT OF DR. ARTHUR R. UPGREN, ASSOCIATE EDITORIAL EDITOR, THE MINNEAPOLIS STAR, AND PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA, MINNEAPOLIS, MINN.

Dr. UPGREN. Mr. Chairman, I am prepared to proceed in either way you desire; either proceed with the formal statement or extemporaneous remarks.

The CHAIRMAN. You may proceed in any way you wish.

Dr. UPGREN. From the letter of the chairman, it is the statutorial responsibility of this committee to develop a program for maintaining productive, high-level employment in the United States.

The CHAIRMAN. That is rather difficult to achieve. Very few witnesses venture to tell us how that could be effected by law.

Dr. UPGREN. Perhaps it could not be. I notice it is Government policy and you have had many reports which show what is wise to be done by industry in the country, but what government should do about it is a question I should like to raise.

I speak entirely for myself. One who is a professor of economics at a university does not speak for other groups.

The CHAIRMAN. Before you came to Minneapolis what was your experience, just in a brief, general, over-all way?

Dr. UPGREN. At one time I was with the United States Government, the Department of Commerce, Chief of the National Economics Division, and later with the Department of State, then vice president of the Federal Reserve Bank of Minneapolis.

The CHAIRMAN. Have you specialized on farm economics?

Dr. UPGREN. No, sir; mostly on the business cycle.

The CHAIRMAN. All right; go ahead.

Dr. UPGREN. The problem is one of alleviating economic depression. I do not think we can do anything abroad unless we relieve depression at home, and unless we have economic stability, such a thing as tariff does not deserve the importance that we have attached to it.

The CHAIRMAN. That was our experience in 1929 with a very high tariff.

Dr. UPGREN. From 1935 to 1937 our industrial production rose approximately 30 percent. Imports rose considerably more than $1,000,000,000 from a very low level, of $1,400,000,000 to $2,400,000,000, or by 70 percent.

The next question I would like to raise briefly is why do we have these depressions? I would like to point out that a Robinson Crusoe economy does not have any depressions. They have to scratch each day for their daily bread. They can't afford unemployment.

I recall some while ago seeing an issue of Life magazine which depicted a consumer's heaven with all those things, a house, a station wagon, television set, a nearby golf course, swimming pool, and a helicopter, over the whole entourage—all those things the American people want for personal enjoyment. Industry of course wants a large amount of capital goods, so it is a rich economy only that can afford unemployment. It comes when we fail to make large amounts of these goods. Ours is by far the richest of all.

Now I would like to turn to a fundamental principle. It is that of capital formation.

First, to elaborate briefly on the nature of capital formation: Capital formation is production of all those things in a current year which are produced for use in subsequent years. Take in 1929, we produced a capital formation of $30,000,000,000. In 1932 that fell to $7,000,000,000.

I think in Minneapolis our concern was whether or not we would have enough milk on the doorstep each morning for the needs of the people, whether the price of meat, butter, and eggs was going to be high, all this depends on good factory pay rolls. It does not depend on the volume of farm production. I would propose the Government stabilize the amount of our capital formation.

The CHAIRMAN. Have you any idea about the proportion of employees in capital industry as against the proportion in consumer industry.

Dr. UPGREN. I think we perhaps could get at it in this way. If at the present time capital formation is running at an annual rate of $55,000,000,000—old figures—I assume we must have, all told, something like 10,000,000 or more in the capital industries, because with $5,500 productivity per man—a little high—would indicate 10,000,000. I would assume the figure must be upwards of 10,000,000. I think the figure might come to rest somewhere around 14 or 15 million.

The CHAIRMAN. Particularly when incidental industry, transportation, and other things affecting railroad transportation and everything——

Dr. UPGREN (interposing). That is right, and it does not work the other way around.

The light goods industry, as agriculture, cannot increase prosperity. It is how your pay rolls are in the city and capital industries that will determine how you will come out in the country.

Now I will just run over these points briefly.

I think the best way to get at our needs for the future is from a consideration of our accomplishments in the past.

The immediate past accomplishment which should be our guide and objective in the future is our present high rate of capital formation.

But a collapse in capital formation is also possible. Capital does not grow like Topsy nor does it even maintain itself.

Only modern industrial States have capital formation. But the most significant fact for them is that their capital formation can most abruptly decline causing heavy unemployment. All we need to have that is just get along with what we have got.

A comparison of the decline in the components of capital formation from 1929 to 1932, and of the gain in this capital formation for private accounts from the rates that prevailed in the second quarter of 1945 to the final quarter of 1946 throws light on this "jet propulsion element" in our great industrial economy.

Now I will enumerate them quickly. They are familiar, I am sure, to all concerned and they would include construction, partly residential, and a large part commercial, industrial, and factory.

The next class is producers' equipment that manufacturers put into the plants or into their factories.

Next there is inventory accumulation.

Then there is net export, and finally consumer purchases of durables. These are available in greater detail, if so wanted.

Now I would like to suggest we have had rather persistent reports of a recession this year. It was to come because inventory accumulation would fall.

Now then I would propose the Government take these component elements of national capital formation and generally give it as a national aim that we maintain it high. Government can help inform the country too, but we should aim to keep capital formation that between $50,000,000,000 or $60,000,000,000 (old figures). I suggest it might not be, cannot be, much below $50,000,000,000 or much above $60,000,000,000.

The CHAIRMAN. Is there not the danger, if you go to $55,000,000,000, of getting ahead of yourself and, as occurred in 1929, by overbuilding a lot of things you cannot use for a number of years?

Dr. UPGREN. Yes; and we are still going to have the difficulty. We may get "caught up," just as you say.

The CHAIRMAN. I felt very strongly in 1929 and 1930 that we overbuilt in the whole field of commercial construction; hotels, office buildings, and factories. We had overbuilt, and so for the next 5 years after that, there was no occasion to even start on that kind of building.

Dr. UPGREN. That is right. It looks to me like it will happen again. This is easy to say now with hindsight that we should have shifted over to areas that needed it, but now we should exercise some foresight.

The CHAIRMAN. I was only suggesting there was as much danger in getting capital goods too high as too low.

Dr. UPGREN. Yes; the range in 1929 would be too low today. The wartime munitions production would be far too big.

Senator O'MAHONEY. As I understand it, there is a definite minimum below which capital formation should not be permitted to drop?

Dr. UPGREN. Yes, sir.

Senator O'MAHONEY. And a maximum above which it should not be permitted to rise?

Dr. UPGREN. Yes. I think that is a good way to get at a specific principle as an objective of Government and Government compulsion to act.

Senator O'MAHONEY. Now in order to keep capital formation within these limits, it is desirable, if I understand you correctly, to have a shift from one kind of formation to another

Dr. UPGREN. Exactly. I am going to try to illustrate that.

Senator O'MAHONEY. How is that to be brought about? That is your next problem?

Dr. UPGREN. Yes, sir.

Senator O'MAHONEY. Will it be brought about by Government action do you think, or can we proceed on the laissez faire theory.

Dr. UPGREN. I do not think we can leave this to the laissez faire theory. The way is Government construction and highway construction, especially promoting house building.

The first way I think is need of plans to promote residential construction and urban redevelopment in an amount ranging between $5,000,000,000 and $10,000,000,000 annually.

The most obvious and most desirable form of capital formation now needed wanted in the United States in larger amount is residential construction. But it is lagging badly.

Despite a far more powerful economy now than 23 years ago, after the last war, we failed last year to build more than 600,000 family dwelling units. The figure was almost 50 percent higher in the corresponding period after the last war. This time it should be 50 percent higher, not way below the earlier results.

Ten years or so ago Congress, after exhaustive investigations, placed the capital market under adequate national control.

I think the joint committee should urge and forward plans so that we may soon come upon the ways and means to build 1,500,000 houses a year, and certainly that number in every year of a future business recession. We need them. I suppose, though I am not at all certain this is the best analysis, here there will be two main stumbling blocks: the first will be the very high cost of construction. The second will be that we simply have not learned yet at all how to rebuild our cities.

Our tax rates have increased sharply. As a result, property seems literally to flee the city. As a result, our total tax revenues increase not at all. In fact, in the past 16 years or so, the tax rate in Minneapolis has risen from below 90 mills to more than 120 mills. That increase in the rate has only offset the substantial decline in our tax base from $300,000,000 to $240,000,000 for the value of appraised property within the city upon our 35 percent appraisal basis for tax purposes.

Now I would like to turn to your question you have asked in what way can Government policy assist here.

First, I would suggest a congressional investigation of the housing industry.

The other day I rode down here with a young man, a former student of mine who sells a "floating" concrete layer. He says he can sell more in Canada than in the United States. It takes concrete a little stiffer and it smoothes it out, and it can be done in much less time, but he can sell more in Canada because of the lack of restrictions there.

There are other restrictions in the case of building.

Senator O'Mahoney. What are those restrictions?

Dr. Upgren. In one large city in the Midwest the machine is simply smashed. In most cases they are restrictions from building ordinances.

Senator O'Mahoney. Building ordinances?

Dr. Upgren. Yes, sir. By way of illustration I might say that they were painting my filling station recently with a spray gun. I noticed all the sandstone sills had been covered with paper and I asked why, and they said it could not be painted with spray. They were saved for later laborious painting by brushes.

In Britain, an article appeared in the 1936 Monthly Labor Review, pointing out how Britain brought down the prices of housing about as much as ours had increased.

To be sure, the countries are not comparable. The practices are not the same, but they did give that experience, which permitted the entrepreneurs to expand on a large scale as our contractors do not.

I think an investigation is needed because I think the American people want it.

The Chairman. We have a resolution by Senator McCarthy, to set up that exact investigation.

Dr. Upgren. I have not seen it.

The Chairman. He has introduced a resolution to cover that field—employers, material, men, and the whole field.

Senator O'MAHONEY. Senator Taft has named the three most important restrictions, labor unions, building activities, and material. These have all been discussed in a monograph printed by the Temporary National Economics Committee. This is very important. It seems clear to me that local communities, if they tackle the problem of their own building codes, can break down these restrictions. Communities throughout the United States which are in need of more housing are overlooking the opportunity which they have in their own hands to build more houses within their own boundaries by a reasonable change of building codes.

Dr. UPGREN. If I may speak to that point, our tax receipts in the city have fallen from $300,000,000 to $240,000,000. Our tax rate has increased.

We got a majority, and our chamber of commerce has approved the city of Minneapolis building some public housing. But it all stops right at an impasse, until we get a small area, or percentage or grant to get the land, provided by the Federal Government to induce the city to build up square miles of the city and not merely square blocks which will put back on the tax roll and enlarge the tax opportunities so that we can get that tax rate pulled down.

Senator O'MAHONEY. That illustrates again the trend toward centralized government action, and the trend today from private action. Here you seek in the city of Minneapolis today a movement toward public housing.

All over the country communities are turning to Washington. The point I make is that taxpayers are completely dominated or seem to be completely dominated by the community control through building codes and they seem to neglect the opportunity they have to change those codes so as to stimulate private construction.

The CHAIRMAN. The Federal Government, as far as making money available, has been very generous. You can build a house today with no money. We have done everything possible for the veterans in that field. We ought to investigate these restrictions.

Dr. UPGREN. I would say one other thing, when I speak of the chamber of commerce approving a housing resolution, it was not by any manner or means all public housing. The businessmen in our city have approved in principle a public housing building program bue we want most of it done privately.

So, that would be proposal No. 1, a combination of resources, ours and yours, trying to increase the efficiency and trying to provide a moderate amount of assistance from the Federal Government to stimulate all of us, to stimulate when needed to cyclic stability, public and private housing.

The second important way in which I would suggest there is need to help, to even capital formation, is highway construction.

It occurs to me the highways of America are very obsolete and people will not travel because of the dangers and risks attendant to that travel.

The CHAIRMAN. People will not travel because of danger on the road? That is a conclusion I have not arrived at.

Dr. UPGREN. Perhaps, but you live below the ice line. I live in Minnesota, above it, and I would like to drive down to the Gulf coast again in the winter, but we don't dare risk it in the wintertime when I can get away.

The CHAIRMAN. The number of Ohioans that drive to Washington is more than the number that live there, I think.

Dr. UPGREN. In the winter there are many hazards above the ice line. I formerly taught in Alabama, but in the North we have 6 months of dangerous operation. It is hazardous. Anyway, I think the highways are obsolete, in this way: We have automobiles that are on the average much over 5 years old, but if the automobile companies do what they say, we shall soon have new autos. I think we would want new automobiles to drive on such roads as we have, but later we will want more roads to use all our new autos on.

The CHAIRMAN. Our difficulty is to prevent the full highway program going forward when we do not need it to balance us. When we want to come to a balance, there is no way to increase it further.

Dr. UPGREN. I think in this blue print for capital formation——

The CHAIRMAN. It is very difficult to hold back public works because times are prosperous. That is a legislative program.

Senator O'MAHONEY. One of the interesting charts which was printed in the monograph on highways by the Temporary National Economic Committee showed that the low price range of automobiles has resulted in a great shift to the purchase of automobiles rather than the purchase of homes. Homes were so much more costly than automobiles that people preferred to live in a very poor grade of house in order to have an automobile—the moral being that if we had sense enough to change and modernize building codes and laws, and thereby make it possible to build low-cost houses, we could have in the housing field as great a stimulus to prosperity as we do in the automobile field.

Dr. UPGREN. I thoroughly agree. Thoroughly. With respect to housing, at least in Minnesota, and Senator Thye could verify this, we approved at the end of the war the huge capital outlay for a new approach to our capital or statehouse. We found it was not needed. It has been indefinitely postponed. I think it is a case where we will catch up later and have our new approach. Washington might emulate Minnesota here.

This is not the time for the extension of highways, but I think in housing the problems are so immense that we are just bound to have 2 or 3 or 4 years of high activity in order to try to solve that problem.

Then the third suggestion is—and this is the last of the three—that it will be increasingly necessary for official planning organizations, such as the Joint Committee on the Economic Report, to make schedules of all capital formation outlets and their amounts as they may be currently changing either disparately or in general up and down movements.

In the first two, urban redevelopment and household construction, a lot of private capital will have to be used. The second outlet is the construction of highways. Here, too, I think we can use a perfectly colossal expenditure.

I am under the impression the Pennsylvania Turnpike on the total cost before the war was earning approximately 1¼ percent. When I drive along that highway the gratification I get from a safety point of view more than makes up the remainder.

The third way is need for action to stimulate capital formation.

Coming from an agricultural area, I think I should speak for agriculture. I would like to speak to that. There is an article entitled "The Mid-Continent and the Peace." Europe can have American aid.

We had immense bargaining power in 1918 which we did not choose to exercise.

I would suggest as one of the considerations for Marshall plan aid that Europe should reorganize her agriculture.

The countries producing wheat in 1936 had wheat prices ranging from $1.80 to $2.29 in Germany and to $2.46 in Italy, when we were trying to give it away at 96 cents. We paid agricultural benefit payments of one kind or another amounting to $1,000,000,000 a year at one time. At the University of Minnesota we have calculated that the excess cost that the Germans and Italians and French paid for wheat, barley, pork, and lard was a billion and a half dollars a year over the cost they would have had to pay if it had been obtained from the four producing export countries of the world, of which we are one.

We had a pronounced manifestation of the isolationist feeling in Minnesota due to the unfair treatment of the farmers following the last war which gave economic nationalism to those countries. When the depression of 1934 came on the farmers seized upon that as need for aid here.

The dictators in Europe had to have food. We saw the dictator of Italy stripped to the waist helping produce that food. That took 50,000,000 bushels of wheat out of the economic hide of the Dakotas. Consequently we think that agricultural overdevelopment in cereals in western Europe should be cut way back as one method to permit as large or even larger export sales than we had in the twenties. It makes good economic sense.

The CHAIRMAN. How does that compare with capital formation?

Dr. UPGREN. Only as a direct aid to sustain our natural exports and to ship them from specialized points in the agricultural areas. I am digressing somewhat, but coming from an agricultural area—I think that should be done—require on economic merit less wheat production in Europe. If that were done, I think the agricultural areas would come more generally to support an increase in imports so that Europe could pay for the agricultural exports that would be first arranged on merit.

Senator SPARKMAN. Do you think the great imbalance in exports will be adjusted? Our exports are greatly in excess of our imports?

Dr. UPGREN. Yes, sir.

Senator SPARKMAN. Rather unhealthily so, are they not?

Dr. UPGREN. Yes, sir.

Senator SPARKMAN. Do you think that is going to adjust itself normally?

Dr. UPGREN. Yes; I think it will. I hope it will not be too long.

Senator SPARKMAN. The increased exports which you argue for for agricultural products will not aggravate that situation?

Dr. UPGREN. No; I think it will give it much better balance. It will be intensified. The dollar value would not be at all excessively large. Some of our industrial exports—far more in value—could be reduced.

Senator SPARKMAN. If I follow you correctly, your argument is, take wheat for instance.

Dr. UPGREN. Yes.

Senator SPARKMAN. Where wheat cannot be economically grown in Europe in competition with our wheat. Is that right?

Dr. UPGREN. That is right. To the extent of the number of bushels they grow wholly uneconomically.

Senator SPARKMAN. I am wondering what you are going to do about replacing that agriculture.

Dr. UPGREN. I recommend Europe do just what Minnesota did. As you know we were at one time a great wheat-producing State. We produced a hundred million bushels anually. Now that is down to around 10 or 20 million bushels. Now 55 percent of our farm production is animal products.

Senator SPARKMAN. Your argument would then be for the reorganization of agriculture and not a shift from agriculture to industry?

Dr. UPGREN. That is right, and Europe might produce these products, the food products and milk and she would save the excessive cost she is paying $1,500,000,000 a year and more, and she would shift away from these products to other production which is best produced in Europe, economically on merit.

Turning next to another suggestion I have made, as usually every witness has, I bring up taxation.

I would suggest after a decision is made, if it comes to be made with respect to personal income taxes, that we at least give consideration, and that your experts look into the increasing benefit that would stem from a reduction in corporation taxes if times get slack. I might add that I asked a large industrialist in Minnesota, without laying open the subject I was trying to explore with him when he was here if the corporate taxes were reduced what action he would take: He said he would lower prices, next he would increase wages and then expand the plant, and I asked why. He said "I would lower prices because I could get along with lower prices and I think it would be a little discouraging to new ventures that couldn't possibly be successful. I think I could do better by my workers to hold them from the blandishments of others." He also said: "I would expand my plant."

So, with lower prices, with increased wages, with plant expansion promoting capital formation, the market would be larger, and with the market larger he would expand his capacity in order to meet that somewhat larger market. That would expand markets further.

Those are the three steps. I do not think we could do any better with industry.

The CHAIRMAN. You are not proposing any reduction in corporation taxes at this time?

Dr. UPGREN. Yes, sir; such a proposal is for later.

The CHAIRMAN. In the case of a depression it would be a good thing?

Dr. UPGREN. Yes, sir; and there has been so little investigation of it, it should be explored.

The CHAIRMAN. Presumably if a depression were once to start, competition would operate so much more effectively it would force prices down.

Dr. UPGREN. That is right.

The CHAIRMAN. Then your suggestion is to lower taxes?

Dr. UPGREN. Yes; if we go into a recession.

Senator O'MAHONEY. I understood you to say at the outset that the response of this business executive was that he would reduce prices because that would discourage new industry?

Dr. UPGREN. No; but would discourage doubtful business industries which would go in. Ably-managed ones might enter the under field.

Senator O'MAHONEY. The phrase that you used was the one that prompted my question.

Dr. UPGREN. I would certainly want to correct that.

Senator O'MAHONEY. Discourage new enterprises.

Dr. UPGREN. Discourage new enterprises. I would certainly want to correct that. I appreciate that correction.

Senator O'MAHONEY. Of course it is a matter of fact that under present conditions, which require large capital investment, a reduction of taxes would tend, by promoting expansion of plant, to make it more difficult for new producers to enter particular fields. I do not know how you can avoid that, but the general objective is an increased production and maintenance of employment.

Dr. UPGREN. Yes, sir. And I hope it would give a high tide to float new enterprises.

Senator O'MAHONEY. Do I understand you to feel that this is a program designed chiefly to be undertaken in the case of a recession? Certainly it would not take a recession to revise our taxes?

Dr. UPGREN. I was referring only to corporate taxes in connection with that. I would say "yes," to their continuation as long as we have this tendency, which is a little toward very high employment.

Senator SPARKMAN. I wonder if I may ask you this question to clarify some of my own conclusions?

Dr. UPGREN. Yes, sir.

Senator SPARKMAN. You referred to the use of the income-tax legislation to help level off inflation?

Dr. UPGREN. Yes, sir.

Senator SPARKMAN. We pass an income-tax law 6 months before it becomes effective, and it will require a year before it shows any results, so there is a time lag of a year and a half or perhaps 2 years.

Are you predicting a depression or recession in that time?

Dr. UPGREN. I would be confused, as you are Senator, but I would use the blueprint of capital formation and be guided by its movement. It is still running very high.

Senator SPARKMAN. I have often wondered why it would not be possible to have some kind of tax legislation that could take care of these varying economic conditions. What are your views concerning that?

Dr. UPGREN. I share very much that view.

The CHAIRMAN. Do you think you could write legislation to provide for that?

Dr. UPGREN. I think there should be something of the type Senator Sparkman mentioned.

Then next I refer to a third subheading, regulation of credit.

I think regulation W and that type of restriction should be supported, for the reason if you remove all regulations I do not think you help the veteran or the man of low income to obtain a house or automobile. The net effect is to relax all credit restrictions and I do not know the extent to which they would impinge on the flow of goods. I think the regulation on the credit is holding people off from buying more. If you remove the restrictions, they can get no more today but they can pay higher prices for the same amount. That doesn't help the veteran.

Senator O'MAHONEY. Would that not be harmful?

Dr. UPGREN. I think it would. That is the reason I support the regulation. If I thought freedom from that regulation assisted veterans and people of low income I would favor such freedom. I do not think it gets any more goods or cars. It only gets the same number at a higher price.

Senator O'MAHONEY. I note that the reconversion plan table has a very interesting impact upon this principle, that is, whether or not to maintain regulation W. That table shows that the second most effective item of control by Government was increased. That was done with regulation W in effect.

Dr. UPGREN. I would rather assume that. I am not too sure about that last figure in the table at the top of page 5, whether it would be the one which consumer regulation——

Senator O'MAHONEY (interposing). On top of page 5?

Dr. UPGREN. On the top of page 5, the last column to the right, the last figure of $16.1 billions—old series of figures—it is still second as the Senator has indicated. It is still second in size, $16.1 billion superseded only by the one the Senator has pointed to, the large purchasers of new durables.

The CHAIRMAN. There has been a rapid increase?

Dr. UPGREN. Yes, sir.

The CHAIRMAN. And one of the things you do not want is too rapid an increase in credit?

Dr. UPGREN. That is right.

Then, finally, I can conclude in just a few minutes, and point out that in the area of flexibility of prices there must be encouragement. I think we need to apply our arithmetic here as to the wage increases and effects of them.

Though the powerful labor organizations at the present time seem determined to secure higher wages even at the cost of higher prices, it should not be impossible that the spiraling wage and price increases will soon teach a different view. The plain arithmetic of those increases in 1946 was that the 18½-cent national pattern of wage increase yielded a worker, if he got it, $370 a year. Against this, there were offsets, for illustration, somewhat as follows:

Increased withholding taxes, $55.

Increased price of his own product, say an automobile, $90. Of course, it is admitted they would not buy a new automobile every year.

Increased price of the product of the other worker whose commodity rose in price as his wages were increased, $90.

Increased cost of feeds due to the wage price increase causing an automatic increase in the farm-parity prices, $90.

I calculated on the basis of the ordinary workingman's budget what each of those would amount to, and he would be only able to have about $50 of the increase. In getting it, he hurts vast numbers of other people.

I think the arithmetic is badly needed to develop the final goal. I urge along with others who appear before you the use of social-security measures. I would point out the increased wages the workers received. I think the rate of pay for all employment has moved up from about $28 a week to over $48 a week at the present time with hours about 37 a week. I am doubtful if anything in the way of social-security payments of one kind or another are going to close the gap so people come to prefer relief to work. Therefore compensation for unemployment should be increased.

I will conclude by restating the reasons for the blueprint of national formation.

I do not see any danger of depression. Everywhere I think adjustment should be welcomed. We do need price adjustments and unless we want someone down here ordering it done, I think we shall have to take care of that ourselves.

I think the possibility for the decline in capital formation is immense. I would not be surprised to see a decline in the magnitude of $20,000,000,000 a year for a little while. After World War I we had five waves of investment expenditures, first exports, then inventory accumulations, then a wave for housing, another wave of consumer durable goods, and, finally, a wave of producers spending to reequip their plants. Then we had another bigger wave that came in upside down. It was the recession. So, we have an opportunity again with wisely considered measures to meet this situation.

So, I would suggest the blueprint of planned high level capital formation be presented to the American people for stability.

The CHAIRMAN. Thank you, Mr. Upgren. Your talk was very interesting and looks a little more toward the remedy than most witnesses.

(The document submitted by Dr. Upgren is as follows:)

STATEMENT PREPARED FOR THE JOINT COMMITTEE ON THE ECONOMIC REPORT, JULY 14, 1947, BY ARTHUR R. UPGREN, ASSOCIATE EDITORIAL EDITOR, THE MINNEAPOLIS STAR, AND PROFESSOR OF ECONOMICS, UNIVERSITY OF MINNESOTA

I. INTRODUCTION

It is the statutory responsibility of this committee to develop a program for maintaining productive, high-level employment in the United States.

To do that means solving the most important single problem of the people of the United States.

This is of first-place importance because without high-level employment there is no certainty that our free enterprise system can survive.

In addition, neither in enlargement of our imports, nor in granting loans, will we be able to render adequate assistance to the rest of the world for its recovery unless we have the firm foundation of high-level productive employment at home so that our people will permit these needed things to be done.

But I think it unfortunate that the Employment Act of 1946, and the work of the joint committee, must be envisaged in terms of a report for 1947, a report for 1948, etc. I do not think present economic developments have, nor do I think economic developments in the future will fit themselves into patterns for which we can propose and take remedial action either conceived or applied within a single year.

I think this point is of unusual importance at the present time because I believe the very important planning to which this committee is directing its energies should be toward maintaning mostly long-run, high-level employment and not directed toward what we should try to do in the calendar year 1948, or calendar 1949. And without good advance planning, I do not see good prospects for the long-run maintenance of high employment.

But first may I say I do not see any serious threat to the extremely high level of employment, substantially more than 58,000,000, that will come this year, or next year, or even in the year after that.

This is indeed our good fortune. It gives us an adequate period of time, in light of the complexities of the problems, to deal adequately with our needs for the longer-run period.

II. THE ECONOMIC POSITION OF THE UNITED STATES IN MID-1947

This is indeed our good fortune . It gives us an adequate period of time, in the war, continues to enjoy overfull employment. No economy in the world's history has been as stimulated as has ours in these years.

There are many ways to review what happened during the war to make this result in the first years after the war almost inevitable. One is to state that:

On the side of goods: Since the end of the war the American people have been busily engaged in the happy pastime of trying and learning how to purchase enough to live up to their new-found state of money prosperity. Here is the basic source of the recent, past, immense, upward thrust to the economy.

On the side of money: Government had so much work during the war for the entire country to do that the net monetary national income as a result was more than doubled.

The larger income of the wartime years might be called the most striking case of "greenbackism" the world has ever seen. Our five-times-increased gold reserves mostly permitted it, and our immense productive power prevented its degeneration into sheer inflation. In war the country was soused about 1 foot deep with cash, and it was 2 feet in our agricultural areas.

As a result, our people are now engaged in making, for the first time that it has been possible, high peacetime outlays match their doubled incomes.

But as if this demand were not enough, immense amounts of deferred demand were also accumulated during the war. And for this cash too was furnished. At the same time, to make such deferred demand to be effective cashwise in the market place, the savings of the people of the United States increased by more than $200,000,000,000 during the war. (These national savings inescapably had to increase in an amount equal to the enlarged national debt.)

Ignoring price rises, the American people thus are able to buy far more goods than they have ever been able to buy before.

This has placed a severe strain on industry. Of it one banker in the metropolis of a Midwest State a year or more ago observed to me:

"It looks to me like every industry in my State is trying to raise its productive capacity by 60 percent."

He was right. Allowing for the price rise, he hit the nail on the head.

In real terms (and if a general average may be used) the American people have a current money income fully large enough, at present higher prices, to buy just that much more in goods. And in the effort of private producers to enlarge their capacity all across the board is found the chief cause of the successful postwar reconversion of the American economy, yielding as it has 12,000,000 more jobs than we ever enjoyed in peace before.

III. THE ARITHMETIC OF RECONVERSION

The figures I next give indicate how we closed the gap, when Government cut off more than $75,000,000,000 of war expenditures:

The reconversion balance

[In billions of dollars]

Change (from second quarter, 1945, to fourth quarter, 1946)

Decline in all war expenditures of Government totaled		−75.7
Increases followed in—		
Private capital formation	+40.9	
Consumers outlays for all nondurable goods	+24.6	
Increase in nonwar outlays of Government	+6.7	
Total increases		+72.2
Final net decline in total national outlays amounted to only		−3.5

Here we see how 95½ percent of the decline in war expenditures came to be offset by increased business expenditure for capital goods, consumers enlarged outlays for durable goods, and small increased Government outlays on current account.

It records resiliency.

Can we continue to be resilient?

In these figures we see the tremendous response of business to the new, high-level demand of consumers. That response by business led to an enlargement of private capital formation by an annual amount of $32,000,000,000 for producers and led consumers to enlarge their purchases of durable goods by $9,000,000,000. In addition, consumers paid more by almost $25,000,000,000 for nondurable goods. They got some more goods. They paid much higher prices for them.

These figures are better than any others we can produce, the basic guideposts for a program looking toward maintaining high-level productive employment after the present great stimulus shall have exhausted itself.

IV. THE DANGER AHEAD

There seems no chance that, by and of themselves, the figures for private capital formation can automatically or without plan be held to these high levels needed for full employment after the "catching-up period" comes to an end.

Businessmen today are attempting in the shortest possible period to lift their capacity.

But they will not continue to do this each and every year in the future. In fact, their doing it now precludes their continuing to do so later.

Once we have provided the capital facilities for this enlargement of output of goods flowing to consumers, the depreciation or replacement fund alone is adequate to maintain the capital plant of American business.

But the depreciation fund is not equal to one-fourth of the expenditure producers are now making for capital formation.

In addition, consumers may not continue their present vigorous expenditures for durable goods. Until recently almost all their automobiles were 5 years old or older. The time may come when a very large number of them are 5 years young or younger.

Thus, total capital formation, which in the fourth quarter last year was running at an annual rate of 54.6 billion dollars, might conceivably decline by amounts that are to be measured in magnitudes of 20 to 40 billion dollars for a year.

What action is wise, for both the short run and the long run, to forestall such a possibility?

V. CAN WE AGREE TO A BLUEPRINT OF NEEDS?

The best way to get at our needs for the future is from a consideration of our accomplishments of the past.

The immediate past accomplishment which should be our guide and objective in the future is our present high rate of capital formation.

But a collapse in capital formation is also possible. Capital does not, like Topsy, just grow and maintain itself.

Only modern industrial States have capital formation. But the most significant fact for them is that their capital formation can most abruptly decline causing heavy unemployment. That is the nature of this animal.

Robinson Crusoe and subsistence economies cannot afford unemployment. Their people must scratch incessantly for their daily bread. We want a great deal more than just bread.

It takes a rich economy to afford unemployment. Ours is by far the richest of all.

Our capital formation, almost $30,000,000,000 in 1929 and well over $60,000,000,000 in the war years, is the source of our great national strength. But at the very same time it is equally the cause of the most serious disease of a modern capitalist economy such as ours—the disease of having a hard, persisting core of unemployment.

In 1932 our net capital formation fell from $27,000,000,000 to less than $7,000,000,000. This decline of $20,000,000,000 (from 1929 to 1932) taking per-worker annual productivity at about $2,000, is the best way to explain why in those same 3 years we came to have 10,000,000 unemployed.

Today our capital formation is at an annual rate of $55,000,000,000. The decline this time might be of the order of $40,000,000,000 or double the $20,000,000,000 of the early 1930's.

Happening again, despite higher per-worker productivity, that might again mean 10,000,000 unemployed, taking present per-worker productivity at $4,000.

But what are the component elements in this capital formation?

What are the replacements for declines in any of these components which might be recommended? What are the stimulants which may be used to keep our capital formation high? Can we have a national blueprint which a free citizenry, understanding the necessary arithmetic, will support? Can their representatives legislate wisely to forestall the near fatal disease which such a free society may suffer—continuance of a hard core of unemployment?

VI. THE BLUEPRINT OF THE PAST

A comparison of the decline in the components of capital formation from 1929 to 1932, and of the gain in this capital formation for private account from the rates that prevailed in the second quarter of 1945 to the final quarter of 1946, throws light on this "jet propulsion element" in our great industrial economy:

[Annual rates in billions of dollars]

Components of private capital formation	Decline in the "Great depression"		Recovery in the "reconversion period"	
	Year 1929	Year 1932	Second quarter 1945	Fourth quarter 1946
Construction	8.3	1.8	2.2	8.8
Producers equipment	7.3	2.4	6.1	15.6
Investment in inventories	1.6	−2.3	−.7	9.7
Net exports	.6	.2	−.9	3.8
Consumer purchase of durables	9.9	4.2	7.1	16.1
Total capital formation	27.7	6.3	13.8	54.6

In 1929, at then-existing price levels, private capital formation of $28,000,000,000 combined with $64,000,000,000 of production of consumers' nondurable goods and services and about $8,000,000,000 outlays of all government yielded full employment for the then much smaller labor force of less than 50,000,000 and a total gross national product of an even $100,000,000,000. That total product and its component of private capital formation are each twice as high today. Today we have over-full employment, much higher prices, and a labor force enlarged by almost one-third.

By far the heaviest single cause of the 10,000,000 unemployment in the mid-thirties was the more than $20,000,000,000 decline in private capital formation.

Again, it was the very low rate of private capital formation in the second quarter of 1945 which permitted the peak war production in that quarter. But the huge recovery in private capital formation to a rate of $55,000,000,000 last year, more than any other factor, accomplished the successful recovery of American industry to employ practically the last man in today's labor force of about $200,000,000,000.

Allowing for further enlargement of the labor force and increased productivity, the problem of maintaining high productive employment in the United States is mostly the problem of maintaining capital formation at a level in excess of $50,000,000,000. If we do that, we shall likely have a gross product of $200,000,000,000.

But this is certainly not going to be easy. There is still far too much objection to developing and using techniques for maintenance of capital formation—private and public. What are they?

The need for exploring the new channels for capital formation grows out of the fact that industry is going to get its factories rather completely built and speedily equipped in the next few years.[1] Industry is now engaged in a tremendous spurt to build and equip these factories to maintain competitive positions and to produce for the American consumer the greatly enlarged flow of

[1] Included further in industry investment is the very great past year's enlargement of inventories. This, of course, will not continue. In fact, it is these net exports, more than any other single factor, which account for the absence of the widely predicted recession whose time schedule has called for its arrival precisely "in the here and now."

products he wants all at once and is able to pay for. In contrast, our net exports will be substantially larger.

Finally, consumers' purchases of durable goods has passed by 60 percent the high levels of both 1929 and 1941. In the near-term future, a still further increase is possible in this most important form of consumer investment.

Because further stimulation of exports and further enlargement of consumers' purchases of durables—if the consumers durables can be made available by elimination of material and labor bottlenecks—any near, future appreciable amount of unemployment does not seem likely. If price and other necessary economic adjustments intervene during this period they certainly should be welcomed because they do not foretell any sustained unemployment.

In the longer run, both industry and consumers are going "to catch up" with their heavy present demands for capital replacement. After 4, 5, or 6 years of capital formation at the rates measured above, a decline in these rates ranging between 20 and 40 billion dollars might occur without any reduction in the ability of industry to produce for current consumption nor in the enjoyments of services consumers then may secure from the large stock of durable goods they will then own.

To use a long phrase, consumers and producers may "postpone their purchase of durable goods and construction." To a great many workers, this long phrase is just a hard way of spelling a single, dread word. That word is "unemployment."

What should be done to forestall the likelihood that it will threaten?

VIII: A BLUEPRINT OR BUDGET FOR THE FUTURE

In a complex world there has been no more useful procedure and analytical tool, for purposeful human control, than the budget or blueprint. Building a battleship requires two carloads of them.

They need development in great detail to solve the far more difficult problem of sustaining a high peacetime capital formation.

I certainly cannot propose but a small part of what should be done. I hope the joint committee succeeds in getting a well-rounded picture of all our needs.

But I do want to recommend a concern for, and to urge the continuous development of three types of plans for bringing in, as they may prove to be needed, new large amounts of wanted capital formation—wanted for their own sake and for maintaining a high-level, productive economy for the United States.

At the same time inflation, which has thus tended to be induced by this vigorous increase in exports, has been held back as much as it has mostly owing to the heavy hand of the Federal tax gatherer.

But that heavy hand no doubt has been needed and if it has assisted in controlling prices, no hand that could have accomplished that could be described by anything but heavy.

Heavy hands may be necessary, though they certainly may not be liked in complex economies. They don't mean anything to subsistence. There always is felt the heavy hand of starvation.

Here are the three types of plans:

1. The need of plans to promote residential construction and urban redevelopment in an amount ranging between 5 and 10 billion dollars annually.

The most obvious and most desirable form of capital formation now needed and wanted in the United States in larger amount is residential construction. But it is lagging badly.

Despite a far more powerful economy now than 23 years ago after the last war, we failed last year to build more than 600,000 family dwelling units. The figure was almost 50 percent higher in the corresponding period after the last war. This time it should be 50 percent higher, not way below earlier results.

Ten years or so ago Congress, after exhaustive investigations, placed the capital markets under adequate national control.

Now one can certainly urge, and with far more force that there should now be a complete congressional investigation of the construction industry. Methods then could be developed to encourage an orderly behavior for that industry and steady employment for workers in it, just as in the earlier period orderly rules and procedure were laid down for the capital markets in the field of finance instead of construction.

I think the joint committee should urge and forward plans so that we may soon come upon the ways and means to build 1,500,000 houses a year and certainly that number in every year of a future business recession. We need them. I suppose, though I am not at all certain this is the best analysis, that here there will be two main stumbling blocks: The first will be the very high cost of construction. The second will be that we simply have not yet learned at all how to rebuild our cities. We just let them rot—despite the fact that now it is in cities that most Americans now live.

One example is available in Minnesota. Bids were asked by our State university, at which I teach, for two- and three-room apartment, simple barracks-like buildings, having direct exits, provided with no public space, frills, etc.

These were intended to be built for married GI's and younger married members of the teaching staff. After complete elimination of all unneeded appurtenances for so transient a group, the bids for building and equipment came out no less than $8,550 per apartment.

Such a figure, transposed to an ordinary tax-paying basis (the university receives tax exemption for such essential housing) an income of more than $4,500 per year would be required to enjoy the unluxurious, confining living accommodations represented by a two- or three-room barracks-like apartment.

Such a situation needs correction in Minnesota. I suspect it needs that all over the United States.

In Minneapolis a mayor's commission, of which I am a member, has been engaged upon a search for new revenue sources for our city.

Our tax rates have increased sharply. As a result, property seems literally to flee the city. As a result, our total tax revenues increase not at all. In fact, in the past 15 years or so, the tax rate in Minneapolis (quite exclusive of our homestead exemption) has risen from below 90 mills to more than 120 mills. That increase in the rate has only offset the substantial decline in our tax base from $300,000,000 to $240,000,000 (the value of appraised property within the city upon our 35-percent appraisal basis for tax purposes).

Just as there is no way in which taxes can be reduced at the Federal level with financial safety, unless we maintain a high national income for the people of the United States, there seems no way we in Minneapolis can lower the heavy burden of our taxes without that rebuilding of the city which restores to our tax rolls much new property. Only that can offset the depreciation of old property which yields less and less in taxes and costs more and more for city services.

These are a few of the reasons why I believe the most important single step to maintain substantial high-level employment in the United States (and to build homes for our people) is to come upon a plan whereby residential construction and urban redevlopment can be markedly encouraged so that this form of capital formation can succeed to any decline which may come in other component elements of private capital formation.

2. The need of plans in an amount between 2½ and 5 billion dollars annually to promote highway building.

In mileage, most of the highways in the United States, if they ever were built to a condition deserving of being called highways, have become obsolete.

Five or six years ago I said the people of the United States, when the war should end, would want new automobiles to run upon such highways as we might still have, rather than want new highways without new automobiles to run upon them.

Certainly, we properly have given private capital formation the right of way. But it soon may have done its job. New forms of desirable activity must be found.

It has always been puzzling to me that there can be any difference between the desirability of automobiles in which we ride and the desirability of highways upon which we ride. Yet I find the business community frequently has a sharp ideological opposition to building the highways and finds virtue only in a non-governmental product. A contrary argument, carrying conviction with me, is the following:

If an individual in this postwar period buys two automobiles, he may borrow a total of $3,000 to finance this purchase. That use of credit buys cars for him, stimulates business for others, gives jobs to workers, and permits them to buy meat and potatoes, apparel, and perhaps automobiles for themselves as well.

But in a few years after the war, the individuals buying automobiles pay off the debts incurred. But since their autos are still quite new, they now would then like new and better highways upon which to travel to the more places their higher income will permit them to go.

These car buyers, however, do not find highways for sale at the neighborhood store, or at the five-and-dime, or at any supermarket. The only provider of highways appears to be, not private enterprise, but government.

Therefore, these individuals ask government to provide the additional highways they and 20 or 30 million other purchasers of new automobiles want. Government replies that it takes money to pay for highways. The would-be purchasers of highways, who would like to do more of their driving removed by more than 18 inches from sudden death, urge that government build the highways and borrow, of course, if it is necessary to do so, just as they borrowed to buy their automobiles.

Such borrowing, which might amount to $300 per automobile owner, provides a commodity that is equally wanted, one that stimulates private enterprise all around, and that provides jobs for more in the machinery, cement, and highway-construction trades. (It also lets the automobile and truck and all who ride in them do a better job.) Those jobs, as in the case of the purchase of a new automobile, permit workers to purchase meat and potatoes, apparel, and to buy new automobiles as well as even to pay for the debt incurred for the new highways themselves.

Certainly, when we have the many new automobiles the industry is increasingly producing, we should be able, out of any idle resources that may later appear, to provide the then-wanted highways. In fact, a program for $15,000,000,000 of highway construction ($300 for each of 30,000,000 auto owners) over 3 years of a period of business inactivity, would involve a total annual cost not in excess of $560,000,000 (including amortization of the highways).

Such an amount is only $4 per American per year. Is it too much to ask that cooperation of cities, counties, States, and towns be enlisted in an expanded Federal plan devised now while we have the time but, happily, not the need? This can assure us these capital improvements, so befitting the Nation with the greatest capital-producing ability in the world's history, will yield us better highways and over 1,000,000 jobs when we shall need them.

3. The need of stimulating action indirectly to induce expansion of capital formation.

In my view, it will be increasingly necessary for official planning organizations, such as the Joint Committee on the Economic Report, to make schedules of all capital formation outlets and their amounts as they may be currently changing either disparately or in general up-and-down movements.

This, without conscious planning, has happened during the first half of the present year when an expansion of our net exports has offset any decline in the rate of increased inventory investment.

In a complex economy, in which all capital formation is so important and may be subject to far wider swings than we have known in the past, all component elements should be charted. Without available detail, these have been listed above in this statement. They cover investment in construction, in producers' durable equipment, and in consumers' durable goods, over and above the investment now mentioned in inventories and net exports.

With these capital-formation magnitudes given and charted, it next becomes necessary to find what stimulating arrangements—over and above such specific encouragements as building and urban redevelopment and highway construction—can induce the wanted compensating upward movements in these items or other items of capital formation.

What are some of these stimulating devices?

1. Reduction in the personal-income tax: This permits consumption to be enlarged right at home by each and every American taxpaying family.

2. Reduction in the corporate-income tax: This, if planned for early in a time of less-than-average business activity, will encourage somewhat lowered prices for the products of industry, somewhat improved wages for the workers in industry, and somewhat larger investment in capital facilities by industry.

3. The regulation of the volume of credit: In terms of regulation W (covering consumer installment credit) there appears to be no desire to continue such authority to contract credit. But it certainly must be recognized that the rather substantial expansion in all forms of bank credit since the end of the war has contributed in the direction of inflation precisely as did the expansion of Government credit in the wartime period. It is not a case of the one always being good and the other bad. Each must be used judiciously.

4. Flexibility in wages and prices: Though the powerful labor organizations at the present time seem determined to secure higher wages even at the cost of higher prices, it should not be impossible that the spiraling wage and price increases will soon teach a different view. The plain arithmetic of those increases in 1946 (whatever the final arithmetic shows for 1947) was that the 18½-cent

national pattern of wage increase yielded a worker, if he got it, $370 a year. Against this, there were offsets, for illustration somewhat as follows:

(a) Increased withholding taxes, $55.

(b) Increased price of his own product, say an outo, $90.

(c) Increased price of the product of the other worker whose commodity rose in price as his wages were increased, $90.

(d) Increased cost of foods due to the wage-price increase causing an automatic increase in farm parity prices, $90.

The foreging losses are in addition to those calculated by Sumner Slichter, made up of the actual money income lost during the strike and usually measured in terms of the number of months or years of wage increase required just to offset the loss in wages during strike idleness.

5. Accompanying the rapid gain in knowledge of the arithmetic of production and prices and wages, we should be able to expect greatly improved cooperation between labor and management by which alone welfare advances can be won for labor and all the American people.[2]

VIII. CONCLUSION

In summary, the following conclusions are presented:

1. There appears to me no need for the application of antidepression policies in the near future. A high tide of productive and employment activity is in prospect. Economic correction should primarily come in terms of price adjustment. That is desirable. It is our society's way of guiding our men and our resources from places where they are less desired to places where they are more wanted.

2. Next is needed a widespread understanding of the fact that modern industrial economies are vulnerable in a way all economies up to a 100 years ago were not. They are vulnerable to great declines in employment that come, about 80 percent, because capital formation can abruptly decline without injury to industry's ability to produce current consumption goods and without a decline in the flow of consumption or satisfactions from consumers hitherto-accumulated stock of all goods, but especially durable goods .

3. From No. 2 it follows that we should concentrate our planning and energies, in peace as in war, upon the steady production of a high total of durable and capital goods.

4. But what is most needed, in the interests of stability, is the understanding that all groups must cooperate to make a free economy work and to make it always be the most productive in goods and jobs. Workers should plan for healthy industrial profits. Industrialists should plan for steady well-paying jobs. Congress should plan the willing use of the Federal Government's great powers to promote capital formation without which there can be neither full employment nor material prosperity. At a later date, more emphasis may be considered for schemes that operate directly to sustain purchasing power. They are not needed today.

The CHAIRMAN. The next witness is Mr. Harder.

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[2] Perhaps a further word of explanation of emphasis upon the use of private capital formation should be given. In the interest of exposition, no particular reference has been made to encouragement of output of consumers nondurable goods directly.

This is because if we built enough houses, highways, producers' durable equipment, and consumers' durable goods, we are certain to find an agriculture that can market large amounts of its products at good prices. But the causal relationship is not the other way around. Seldom is it possible in a period of inactivity so to stimulate consumers' nondurable goods and services as to induce a wanted stimulation of private capital formation.

Some may also wish to inject mere elegance into the foregoing analysis by asserting a "multiplier" relation between private capital formation and either the volume of production of consumers' nondurable goods and services (which, to be sure, yielded greater proportion of total employment). But in the analysis above, this complicating "multiplicative relationship" has been omitted, but not ignored, for the very good reason that the stimulants of that type of tax reduction, enlarged residential construction and urban redevelopment, increased highway-building programs, have similar and probably equal multiplicative effect upon the net national income. Thus, in the blueprint which it is to be hoped the work of the Joint Committee on the Economic Report can ultimately develop for policy action, the volume and component elements of capital formation may be compared directly with the volume and the type of stimulants discussed above, or new ones, as they may be developed and quantitatively measured.

I understand Mr. Wimmer was to present the paper and that Mr. Wimmer's plane was grounded and he is not here, but that Mr. Burger has the paper and will present it.

Mr. BURGER. Yes, sir.

STATEMENT OF GEORGE J. BURGER, DIRECTOR, NATIONAL FEDERATION OF SMALL BUSINESS, IN CHARGE OF THE WASHINGTON OFFICE, WASHINGTON, D. C.

Mr. BURGER. I am reading this statement for Mr. C. Wilson Harder, president, National Federation of Small Business, Inc.

The CHAIRMAN. Mr. Burger, would you identify yourself, please?

Mr. BURGER. George J. Burger, director of National Federation of Small Business, Inc., in charge of the Washington office at 715 Bond Building, Washington, D. C.

The CHAIRMAN. All right.

Mr. BURGER (reading): My name is C. Wilson Harder, president of the National Federation of Small Business, Inc., a national organization comprised of independent small businessmen throughout the Nation. For the National Federation of Small Business, Inc., which has the largest individual membership of any business organization in the United States whose head office is in San Mateo, Calif., and with district offices in Chicago, Ill., and Washington, D. C., I would like to express to the committee our sincere thanks in granting us the privilege of appearing here to state our views before this important body.

I think, before I go into my complete statement, that we owe a debt of gratitude to the foresight of the Congress in creating the Small Business Committee in the Seventy-seventh, Seventy-eighth, Seventy-ninth, and Eightieth Congresses.

During the war years, small business of this Nation had the help of the Small Business Committees in the Congress. It is a safe conclusion in stating that most of the small businesses would have been eased out for the duration of the war without this aid. I think it safe to say that in Great Britain small business did not have this kind of help during the war years and found itself in a very precarious position and some industries, the bulk of them small business people, were eliminated for the duration of the war.

I think, also, at this time it is important and proper to pay tribute to Senator Taft who was an active member of the Small Business Committee of the Senate in the Seventy-seventh and Seventy-eighth Congresses, and at the same time, Congressman Wright Patman who served in a like capacity on the House side on their Small Business Committee. In our opinion, it was these two important committees in the Congress that saved the day for small business of this Nation, and I am glad to have this opportunity to make our position publicly known.

I believe, in opening my remarks, it is important to know that we feel this committee has an important obligation on their hands to save the economy of the Nation—more important, the free enterprise system on which this Nation was built. The importance of this committee's undertaking is typified in a letter that I recently noted in the New York Times under date of June 21 which I quote:

PLACE OF SMALL BUSINESS—ITS IMPORTANCE STATED AND PROTECTION AGAINST BIG ENTERPRISES URGED

To the Editor of the New York Times:

The recommendation in the report of the Committee for Economic Development for improving the plight of small business enterprises are encouraging because they have long been needed. It is hoped that means will be found to put them into effect with reasonable dispatch.

The report points out that 98 percent of all American business qualifies as "small business." So long as these little enterprises remain comparatively sound and active there need be little fear of an over-all business slump.

Over the years, America developed the strongest industrial economy the world has known through the combined work of her thousands of small, widely scattered enterprises. To further strengthen the place long held by small business, steps should be taken to keep the small enterprise harmless from the encroachment of the large enterprise which, by one means or another, would take over the little fellow or force him out of business. As big business gets larger and more centralized the balance which has kept America financially strong swings toward economic unstability.

Some much needed improvement in our patent laws should be considered by the committee so as to protect small enterprises which are pioneering new inventive ideas. It should not be possible for big business to sit quietly on the side lines until by hard work and sacrifice an invention is proved successful and then to throw up legal barriers against its manufacture and sale.

Regardless of the ability of big business to spend more time and money on research and development, once they get the inventive idea no subsequent advancement made possible by greater facilities and manpower, except in rare cases, should be permitted to deprive the original sponsor of rights vested in him by his patent. Americans are prolific and resourceful inventors and, from the beginning, in most cases, in order to obtain recognition they have been obliged to commercialize their work the hard way. That is how small enterprises are born.

EDWARD F. CHANDLER.

NEW YORK, *June 13, 1947.*

We agree with this and the statement recently released by the Committee for Economic Development in which they state, in part: "We do so fully aware of the fact that small business in most lines has been unusually vigorous and prosperous since the war." Their statement continues, "but the boom times of 1946 and early 1947 will not last forever."

It is our opinion that the latter condition is slowly approaching the crisis. It is our opinion that if our Nation had not opened its arsenal in supplying the world since VJ-day, due to increased production facilities, small business of this Nation would find itself in a precarious position. In some industries it appears that that has already come about. The federation, speaking for its members, insists and demands strong and healthy competitive conditions.

You note I mention healthy competition; there is a big difference between healthy and unfair competition. We seek no special privilege for any of the people we represent, but if it is true, as the Committee on Economic Development states, that 98 percent of firms operating in this country are small business, and further states that this is the foundation upon which our whole system of business enterprise is built, then it behooves this committee to check and double-check why in normal times the majority of the 98 percent of firms operating in this country are in a precarious position.

It must be true that a healthy small business structure must mean much to the fabric of American life. It must be true that small firms help to keep big firms on their toes. It must be true that the little fellow frequently forces competition in price, design, and efficiency.

It is well to note in the letter we quoted from the New York Times of June 21 that this is brought out very forcefully by the writer as to the expectations he hopes the committee will bring about. I don't think it is a wrong or improper statement to state that many of the major improvements in industry, to a large degree, originated in the minds and the thoughts of some small business institution. Two members of this committee, Senator Taft and Congressman Patman, know that during the early part of the war, in 1942, it was the small business interests of a major industry that created a program, later endorsed and put into effect by a special governmental committee, that went a long way toward solving a serious wartime transportation problem. I think that you on this committee will agree that the small local business institution has an intimate knowledge of the home community and has a personal stake in it. They have this interest because, after all, they are a part of the community and it is necessary for their own self-preservation that they have this home-town spirit in their individual businesses throughout the Nation.

It is my opinion that the purpose of this committee, to a large degree, is to dig into production and competition in the Nation's industry which will, after all, bring about a healthy competitive structure and bring prices more in line so that the consumer will be in a position to purchase his necessary requirements. I must commend the chairman for putting some questions to the preceding witness, the first witness. The first question, as I remember it, was, "So you still do not suggest what the committee should do?" and the second question was in regard to antitrust laws. That is what we are primarily concerned with and we thought the witness answered what the committee could do.

I do not believe that the trend in our Nation's business structure tends to bring about fair and healthy competition. That is not my belief only. I refer to the reports of the Senate Small Business Committee in the Seventy-ninth Congress, Document No. 206, Economic Concentration and World War II.

Then again, the same committee reports, Seventy-ninth Congress, second session, Committee Print No. 16, Future of Independent Business, and again, United States Versus Economic Concentration and Monopoly, a staff report to the Monopoly Subcommittee of the Committee on Small Business, House of Representatives, Seventy-ninth Congress.

Then again appearing in the press, July 1, 1947, was a United Press story stating that in 1947 they list 45 American firms in the "Billion Dollar Club." The total assets of these 45 American firms in 1947 totaled $103,456,016,995.

It would be foolish to suppose that this economic concentration in the hands of 45 leading corporations would not have some serious effect preventing a healthy, fair, honest, competitive condition in the Nation's industry. There is a danger, and a serious danger, unless this committee is insistent that small business is given the proper protection to function in fair competition in which the public will be the beneficiary.

Senator O'Mahoney. It may be appropriate to interrupt you and say it is no longer a billion-dollar club, it is a $2,000,000,000 club, and the total assets of these 45 agencies happen to be a very considerable sum more than the national debt.

Mr. Burger. It is less than the national debt.

Senator O'MAHONEY. The national debt is $253,000,000,000.

Mr. BURGER. We may reach a point in our Nation's economy where it will end in socialization of most of the industries, and we for one, speaking for small business, will fight to the very end any such attempt.

This economic concentration situation must be serious when Mr. B. C. Forbes recently stated the following:

> Dinosaurs, too big, became extinct. The Roman Empire, overexpanded, fell. And the far-flung British Empire is shrinking. Is it possible for ambitious American industrial, financial, and other leaders to overdo expansion?
>
> I have an uneasy feeling that the time has come for the brainy stalwarts administering these massive organizations to give very serious thought to their future policy. Should they reach out unrestrainedly, acquiring vaster and vaster interest, travel farther along the road toward monopoly, dominance? Or should they pause to reflect on what the final consequences of unrestrained growth may be?
>
> These questions deserve the most serious, long-visioned pondering.

It would appear to us in reports we received from our members, our field staff, and others, that there is a great worry in the minds of small business if they dare to attempt to force competition. As many state, they will end up with price wars or, again, their source of supply no longer available.

Having the closest contact with small business of this Nation through our membership, these reports we are receiving every so often show the fear felt by small producers and small independent retailers, of what will happen if they attempt to bring about real competition in which, indirectly, the public will be the principal beneficiary.

Our members believe that production sparks competition and that competition in turn sparks production when both are uninhibited by either business or governmental checks. If this condition comes about, our Nation's economy will be in fair and healthy competition and fear of retaliation from suppliers will no longer hinder small business of this Nation.

It is interesting to note that on July 5, 1947, the American Federation of Labor recommended to its Nation-wide membership the setting up of cooperatives. This must all lead to a fact that this economic concentration in the hands of a few corporations controls and dictates the price structure throughout the Nation. It is not my intention to state that these leaders in big business get together and plan, but it is my opinion that the power in the hands of a few corporations acts for them as a warning or deterrent, so that the great numbers in industry don't step out of line.

The Committee on Economic Development in its recent report confirms what I have just said when they stated:

> The growth of big business in the last 50 years undoubtedly has taken place, in part, at the expense of smaller concerns.

They further state that "some large firms undoubtedly have taken unfair advantage of smaller competitors." We might as well look the facts in the face. We are never going to bring about a real competitive condition in the Nation's industry until this economic concentration is broken up for the maintenance and reestablishment of many thousands of small businesses. It is my honest conviction that the public in this way will get lower prices and better commodities.

It is not our intention to ask this committee for any protective measure for the inefficient small businessman. We have no interest in the inefficient small business institution; that is, provided his inefficiency is due to his own negligence.

It is possible that the Government itself has been at fault or negligent in its administration and enforcement of the antitrust laws. Possibly big business has been aware of the situation.

Just a few months ago the former Assistant Attorney General, the Honorable Wendell Berge, stated in substance before the Senate Civil Service Committee that for the past 35 or 40 years the administrations have been giving merely lip service to the enforcement of the Sherman Act.

Bear in mind, members of this committee, this is not my statement; this is the statement of the then Assistant Attorney General in charge of antitrust. Unfortunately the Nation's press did not carry his complete testimony. I ask, How are you going to bring about real and healthy competition within the Nation's industries in which the public is the present beneficiary unless law enforcement takes place and is done immediately?

It is significant to note that the Federal Trade Commission has been appealing to the Congress for nearly 20 years, requesting an amendment to the Sherman-Clayton Acts that would prevent or prohibit corporations in the same line of endeavor to merge.

Up to the present time, Congress has not seen fit to pass such legislation; witness the merger upon merger of corporations in the same lines of industry during the past 10 years. The result is that you are adding more to the Billion Dollar Club in our Nation's economic structure, and through this will stifle and prevent healthy competition.

It is my opinion that if there is to be a future for small business of this Nation, with the public being the principal beneficiary, the main and foremost action of this committee should be vigorous and immediate antitrust enforcement.

Senator O'MAHONEY. You are aware, of course, that Congressman Kefauver's bill to amend the Clayton Act has been approved by the House Committee on the Judiciary and is now pending action by the Rules Committee.

Mr. BURGER. Yes, sir.

I need not tell you the effects on small producers when they see corporation upon corporation merging in their respective lines of industry. You will know what this must mean to the thinking of a small producer and even more important, to the small retailer.

Senator O'MAHONEY. I may interrupt, myself, and say I know what it is.

Mr. BURGER. It is not my own industry, the rubber tire industry, but all industries.

So it is my intention to make as the No. 1 issue the recommendation, before anything else is done, to bring about free competition and the preservation of small business. Antitrust laws must be enforced; not merely lip service, but by a directive of this joint committee to the respective agencies.

A glaring example of the depressing effect of alleged anti-trust-law enforcement is the action of the Federal court in Sioux City, Iowa, June 24, 1947. I quote:

TRUST CHARGE DROPPED—PACKERS MAY AGAIN BE INDICTED, HOWEVER, BY MIXED PANEL

SIOUX CITY, IOWA, June 24 (AP).—A 1942 Federal grand jury indictment charging three major packing firms with conspiracy to violate the Sherman Antitrust Act has been dismissed on motion of the Government. The packing firms * * * had attacked the indictment on the ground there were no women on the panel from which the grand jury was chosen.

Federal Judge Henry N. Craven dismissed the indictment yesterday on motion of United States District Attorney T. E. Diamond, who said he agreed with the defendants' contention.

While I am talking on the antitrust laws, I must also include the importance of the Robinson-Patman Act because that ties in with preventing monopoly if the law is vigorously enforced. Some institutions have enjoyed special price consideration from the producer to them because of the alleged mass purchasing power.

It may be found that the benefits these mass purchasers received from certain producers will not always be passed on to the ultimate consumer. What apparently they do, too, with their mass purchasing power is to keep their resale price at a level that prohibits independent retailers to compete. It is not competition but destruction.

A recent case came before the Federal Trade Commission on an alleged Robinson-Patman Act violation in which certain large companies received benefits over all other consumers of that manufacturer; it is true that the Federal Trade Commission issued a cease-and-desist order shortly before Pearl Harbor day, and it is interesting to note the observation of the report of the House Small Business Committee on this particular case.

In their press release, dated June 14, 1947, they stated, in part:

During the war the Government virtually took a holiday on enforcing these laws in the interest of maximum production.

In a recent case in Danville, Ill., the Federal court found that a mass distributor had consistently operated thousands of retail stores and those stores were run at a loss. No independent retailer could hope to meet this unfair competitive condition. It was also found that this mass distributor had effected lower prices than those granter to other buyers of the same suppliers—this was circumvented by outright cash contributions.

It is significant to note that when this mass distributor received these special concessions from the supplier, he demanded that he be protected against any alleged Robinson-Patman law violation.

We find in the court record of the same case that when new independent retail stores were to be established, this mass distributor put in effect special practices and policies in the reduction of its prices until the new establishment was closed out of business.

I have heard it stated that in some other cases mass distributors establish stores in a community that are run for 2 or 3 years without a profit, or until they are able to concentrate the business in their hands and the hands of some other few mass distributors supplying in that territory.

Small business is interested in the tax structure, finances, labor, and business management, but I think small business main and present concern is: What is Congress now going to do with these antitrust laws; is it going to be just a continuance of lip service by the various governmental agencies? If this takes place, there can be only one alternative—socialization of the Nation's industry.

I ask that this committee recommend:

1. A special appropriation of at least $2,000,000, the minimum, to the Antitrust Division for the purpose of making an industry-wide antitrust investigation in order to—

(*a*) Get at the problem of concentration.

(*b*) Prosecute vigorously and immediately all cases pending in the Antitrust Division.

It is my understanding that the present Congress has appropriated $2,150,000 for the fiscal year beginning July 1, 1947. It is my further understanding that the Antitrust Division of the Department of Justice in its original budget requested $3,500,000, but that this request was reduced by someone in the Antitrust Division.

To substantiate our request, we refer to you the finding on pages 6, 16, 148, and 51 in the report, United States versus Economic Concentration and Monopoly, Committee on Small Business, House of Representatives, Seventy-ninth Congress.

Then again, we refer you to the Senate Small Business Committee's report, Future of Independent Business, Senate Committee Print No. 16. You will note that their recommendation for the Eightieth Congress was the increased appropriation for the Antitrust Division.

It is interesting to know that economic concentration is increasing in leaps and bounds when, on June 19 of this year, Senator Langer offered a resolution which was referred to the Committee on the Judiciary. He cited the reason for the resolution, quoting the Federal Trade Commission as the source of information.

Since 1940, 1,800 industrial concerns have been absorbed by other concerns. More than one-third of all mergers since 1940 have been in three industries in which small concerns have predominated: Food, nonelectrical machinery, and textiles.

Big companies are most active in mergers of business units since 1940, almost one-third of the absorbed companies being taken over by the largest corporations with assets of $50,000,000 or more. At the end of 1945, the 62 largest manufacturing corporations held 8.4 billion dollars in net working capital. About three-fifths of the mergers in the past 6 years have been "horizontal"—firms producing similar products. The purpose of Senator Langer's resolution boiled down to the recommendation of an investigation into the efficiency, economy, and practices of giant corporations in the United States.

Price discrimination has been the graveyard of most small businesses.

In 1936, after a most thorough investigation by the Congress, they approved and put into effect the Robinson-Patman Antidiscrimination Act, Public Law 692, Seventy-fourth Congress. In the act there is a provision which I quote:

> That the Federal Trade Commission may, after due investigation and hearing to all interested parties, fix and establish quantity limits, and revise the same as it finds necessary, as to particular commodities or classes of commodities, where it finds that available purchasers in greater quantities are so few as to render differentials on account thereof unjustly discriminatory or promotive of monopoly in any line of commerce; and the foregoing shall then not be construed to permit differentials based on differences in quantities greater than those so fixed and established.

No such investigation has ever been made by the Federal Trade Commission on the quantity discount provision. It is interesting to note that two very large contracts in a major industry were in effect just at or about the time the Robinson-Patman Act became law.

In one of these contracts the Federal Trade Commission had found a preferential of $41,000,000 accruing to a mass distributor over the independent buyers of the same producer. When the Robinson-Patman Act became law, that producer supplying this mass distributor publicly stated the cancellation of the contract because he could not justify the price under the new law. Some 60 days later another major producer, with a similar type of contract with another mass distributor, made the same announcement of the cancellation of his contract with a leading national corporation—cancellation of the contract because they could not justify the price under the law. In other words, quantity discount was involved and they, with the best legal authority available, came to the conclusion that they could not justify their prices—hence the cancellation.

It is to be regretted that the Federal Trade Commission did not go in immediately and make a Nation-wide investigation, at least with some few principal corporations who were enjoying quantity discounts, and find out whether these quantity discounts were in full keeping with the provisions of the Robinson-Patman Act.

The next recommendation:

2. That this committee recommend a special appropriation of not less than 350,000 and that the Federal Trade Commission be instructed to make this investigation which is provided within the law itself on quantity discounts, and report back to this committee and the Congress not later than February 1, 1948, an interim report on their investigation. It apparently has been that the Commission never had the proper appropriations or the necessary competent personnel to go in and do this job properly, and until this is done by the Commission, we say to this committee that insofar as the Robinson-Patson Act is concerned, it is a dead-letter law.

Surely this committee or the Congress should not be fearful of making these measly appropriations to these two important agencies with a direct mandate to those agencies of what they should do with this money. After all, Congress since VJ-day has appropriated to Bretton Woods, British loan, Greece and Turkey, UNRRA, new relief, lend-lease settlement and surplus property, Germany and Japan, Export-Import Bank, a sum totaling $19,500,000,000, and with the Marshall plan now coming up we will be most lucky if this amount is not doubled within the next few years—all out of the taxpayers' pockets.

It is more necessary to the future of our own Nation's economy that a few million dollars be appropriated immediately to the enforcement of these antitrust laws. For refusing to do so, the result can be only one thing—regimented economy.

It is my hope and trust, when I make the plea for the 100,000 or more small businesses for which we speak—and we speak for all with no cliques or groups but all our membership—that this committee take under immediate advisement the recommendations I have set forth and put into effect at once these recommendations. The result will be a healthy and steady competitive condition in our industries, and most important, the public will get lower costs and improvements in the various commodities.

It was my hope to include recommendations as to the taxing structure affecting small business, the financial situation affecting small business, the long-term capital loan, the labor situation affecting small business, suggested management methods for small business through the Department of Commerce.

However, I believe that the subjects I speak on are of more importance for our Nation's economy and future, and I would like to request the privilege of filing with the committee a supplemental statement on the various programs which I have just mentioned and which cannot be included in this prepared statement.

I would like to bring to the committee's attention the result of a questionnaire circulated among our members, through the official publication, the Mandate, Bulletin No. 141. The questions were as follows:

1. Are you for or against full-scale investigation of the present lack of enforcement of the Sherman-Clayton Act and the Robinson-Patman Act with adequate authority placed in the hands of the Federal Trade Commission, and full investigation of the Federal Trade Commission to see that all violations are handled promptly and effectively?

2. Are you for or against full investigation of the Antitrust Division for the purpose of making all corrections necessary to bring about prompt and effective prosecution of all monopoly violations now incompleted; also efficient and prompt handling of all future antitrust violations?

3. Are you for or against the House and Senate Small Business Committees giving preference to action on the above-mentioned issues, over activity which pertains to any certain vocation of business?

That was distributed to 118,000 small businesses.

The answers have been received and tabulated, and the result of the poll was as follows:

Question No. 1: 97 percent for, 2 percent against, 1 percent no vote.

Question No. 2: 96 percent for, 2 percent against, 2 percent no vote.

Question No. 3: 95 percent for, 3 percent against, 2 percent no vote.

In closing I say to you, in all sincerity, that unless immediate action is taken through this committee and its recommendation to the Congress of a vigorous and immediate antitrust law enforcement, with the proper appropriations—small business of this Nation might as well know the score now as later on—they are through.

I have been a small businessman, Mr. Chairman and members of the committee, since 1909. These words of the National Federation of Small Business, of which I am a director, I say are the truth and the whole truth.

This committee has an important obligation. I think if these antitrust laws are vigorously enforced you will see a different situation in regard to the business of the Nation.

The CHAIRMAN. It would reduce prices?

Mr. BURGER. Yes, and it would be a recognition of the testimony of the Assistant Attorney General, Mr. Wendell Berge, on February 13, 1947, before the Senate Civil Service Committee, in which he brought out that the enforcement of the antitrust laws was merely lip service.

The CHAIRMAN. Thank you very much, Mr. Burger.

Senator SPARKMAN. Just to satisfy my own curiosity, you say small business is 98 percent of the firms operating in this country. Where did you get that figure?

Mr. BURGER. That is the break-down in the Committee on Economic Development. I think their source of information is the Department of Commerce.

Senator SPARKMAN. You followed the definition they gave?

Mr. BURGER. Yes; we used that because they are from the Department of Commerce.

The CHAIRMAN. It is a difficult thing to define and in the various sizes and kinds of industry it is almost impossible. We ought to leave it to somebody just to decide whether it was small business or not.

It depends on the number employed, the capital investment, which in some businesses may be very big and some very small. It is a pretty difficult thing to define.

Senator SPARKMAN. I know that has been generally true. I thought perhaps his organization had a specific definition.

Mr. BURGER. Senator Taft, I understand that on July 11 a delegation from the food canners appeared before a committee in the House and stated there was a tremendous surplus of canned goods on hand, and one of the members of the committee—and I am not going to take the time to read the report in the New York Times—asked them why they did not lower the prices.

I notice in the press that a delegation will come from California and ask for a subsidy for the grape growers to convert them to raisins.

The CHAIRMAN. That is for the Atomic Energy Commission.

M. BURGER. I was very much impressed by your questions, Mr. Chairman.

I know in Senator Sparkman's own State, in Gadsden, Ala., a big business institution moved in and destroyed efficient small businessmen.

I can see the effect of these large mergers in my business—the rubber tire industry.

Among the small producers in Akron—I know these independent tire dealers with independent rubber companies—many of them cannot go on under present conditions.

In my home town in New Rochelle, N. Y., in buying a suit of clothes, I said something about it and the merchant said, "Mr. Burger, it is not only in your business, but it is going into the clothing business."

Senator SPARKMAN. It is in so many different lines of business I was just wondering if you think there may have been some element of that in the recent agreement between Big Steel and the miners.

Mr. BURGER. I think there was an editorial in the Times-Herald, and about "all I know is what I read in the papers", as the late Will Rogers would remark. They said Steel was interested in reaching mass production and they did not care what process they used.

Whether there is an agreement between big business and labor—well, I think there is concentration in business and the same thing applies to labor. There is "something rotten in Denmark."

The CHAIRMAN. The committee will adjourn until 10 o'clock tomorrow morning.

(Whereupon, at 12:40 p. m., the committee adjourned until 10 a. m. Tuesday, July 15, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

TUESDAY, JULY 15, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to adjournment, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Watkins, Sparkman, and O'Mahoney; and Representatives Bender and Hart.

Also present: Staff members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Mr. Earl Bunting, president of National Association of Manufacturers and president of O'Sullivan Rubber Corp., Winchester, Va., is the first witness.

STATEMENT OF EARL BUNTING, PRESIDENT, NATIONAL ASSOCIATION OF MANUFACTURERS AND PRESIDENT OF O'SULLIVAN RUBBER CORP., WINCHESTER, VA.

The CHAIRMAN. Do you wish to submit your statement with the appendix, or do you wish to make a short statement?

Mr. BUNTING. I think, if it will suit the convenience of the committee, Mr. Chairman, I would like to file the complete statement and make an oral statement with the use of the charts we have assembled.

The CHAIRMAN. Your statement will be placed in the record in full and you may proceed.

(The document referred to follows:)

BRIEF SUBMITTED BY EARL BUNTING, PRESIDENT OF NATIONAL ASSOCIATION OF MANUFACTURERS, AND PRESIDENT OF O'SULLIVAN RUBBER CORP., WINCHESTER, VA.

This brief is presented to the Joint Committee on the Economic Report in the earnest hope that we can make a tangible contribution to the important work assigned to your committee. It is our hope, too, that by this presentation, we may play a constructive part in the maintenance of a high level of production and employment, to the end that this Nation will continue to enjoy an ever-rising standard of living and that the national strength so essential to world peace will be assured.

On the whole, America's economic situation is definitely encouraging. Comparatively few elements are unfavorable. The problem facing all of us is to preserve the many favorable elements and to eliminate the few but dangerous snarls in our economy.

Our primary job is to establish a better economic balance—not a static balance, but a dynamic and progressive set of relationships that will make America move forward and upward from the present level.

To achieve this, Americans must work for the long pull, not the short haul. United effort can never spring from opportunism and expediency. But it is entirely possible to establish certain principles to guide our decisions—this year and next year—so as to open up a new era for this Nation and the world. If our guiding principles are correct, we shall not need to call upon the crystal gazers every time there is a slight change in economic affairs.

Without attempting to forecast future developments, we can, nevertheless, examine the facts of the situation to advantage, bearing in mind that any such examinations must inevitably involve individual judgment and opinion as well as facts.

I believe I can best contribute to this committee's program by an appraisal of major economic developments. But first let us briefly review our present economic situation.

EMPLOYMENT

Despite predictions of Government economists, the threat of reconversion unemployment never materialized. You will recall that in the fall of 1945, the OWMR predicted that 8,000,000 woud be unemployed by the middle of 1946. Actually at no time since VJ-day did unemployment exceed 2,700,000. At no time did it even reach that level except in March 1946 when serious strikes had disrupted production.

The following table (table I) gives the record of civilian employment and unemployment from 1939 through May 1947. It is sufficient to point out here that civilian employment is at an all-time high of 60,000,000 and that unemployment is now a negligible factor. There has been no mass unemployment since 1939, when 8,800,000 were unemployed. Factory employment alone in April 1947, according to the Bureau of Labor Statistics, totaled 15,418,000, an increase of 5,340,000 over 1939.

TABLE I.—*Civilian labor force, employment and unemployment*

[In millions]

	Civilian labor force		
	Total	Employed	Unemployed
1939	53.7	44.9	8.8
1940	54.0	46.5	7.5
1941	54.1	49.1	5.C
1942	54.5	52.1	2.4
1943	53.5	52.4	1.1
1944	52.6	51.8	.8
1945	53.6	52.5	1.1
1946	57.5	55.2	2.3
1947—January	57.8	55.4	2.4
February	58.0	55.5	2.5
March	58.4	56.1	2.3
April	59.1	56.7	2.4
May	60.3	58.3	2.0

Source: Bureau of Labor Statistics and U. S. Commerce Department.

PRODUCTION

This spring, total industrial production has been running at the highest levels ever experienced in peacetime. The Federal Reserve Index of production is approximately 90 percent above the prewar average, 1935–39. Even if we lop off the great upward bulge that occurred between Pearl Harbor and VJ-day, there remains a picture of continuous peacetime growth at a rate averaging considerably better than 10 percent per year. This is a remarkable achievement of which we can all be proud.

There was a distinct wavering of production trends from VJ-day to mid-1946 without a distinct trend in either direction, up or down. In mid-1946, however, with the major strikes settled and prospects for an end of price controls beginning to crystallize, production moved resolutely upward. The percentage rise in production was not great in this period because the level was relatively high even during the reconversion period. It was about 60 percent above the 1935–39 average during all the reconversion, despite strikes and shortages of materials.

The difficulties during the winter of 1945–46 seriously delayed production of many basic items for which people were clamoring. Material shortages, major labor disturbances, pricing policies and other factors gave us a faltering start on the problem of meeting immense pent-up needs.

The delays were not due to the physical problems of reconversion. These problems were largely solved, and the physical transition was completed, within a few months after VJ-day.

In advocating the elimination of price controls, the NAM predicted that we would get an increase in production and—even more important—a better balance of production. Over-all production itself—as measured by the Federal Reserve Board Index of Production—began to rise in July, 1946. You will recall that there were no price controls from June 30 to July 25, 1946, because of the President's veto of the first price-control bill. The new price-control act was in effect from July 25 until November 9 when the President removed all price controls except those on rents, sugar, and rice. During this interim period from July 25 to November 9, 1946, price ceilings were raised for many commodities because of the provisions of the new act which allowed producers some increases in line with increased costs. The FRB Index of Production (corrected for seasonal variation) rose from 170 in June, 1946, to 183 in November. At no time since then has the index fallen below 182.

Now let us see what happened to the production of many items that the American consumer desperately wanted, and still wants in great quantities, as revealed in United States Department of Commerce reports.

The output of automobiles has increased rapidly. With some temporary setbacks, it has increased to a point where the industry is producing more than 100,000 cars and trucks per week. This output is exceptionally high and bids fair to continue—even to increase to new record levels.

Tire production has climbed to all-time highs—far ahead of any output ever achieved before. The increased supply of tires has already resulted in price reductions.

Washing machines are making all-time records in output. The same is true of vacuum cleaners, which are being produced at more than double the rate of output in 1941.

Radios have been flooding the American market, particularly since the fourth quarter of 1946. Here again the unit production far exceeds 1941, and, as everybody knows, the price of radios has already broken sharply.

Electric ranges are making new production records and so are water heaters of the nonelectric type. The output of cooking stoves climbed steadily throughout the last year and through the first quarter of 1947.

Especially significant is the supply of basic materials underlying such consumer goods. The Federal Reserve Board indexes show output of steel running more than double the 1935–39 average.

Machinery output is 2¾ times the prewar average.

Transportation equipment is more than double.

Production of nonferrous metals and products is nearly twice prewar.

So are most of the leading products in the stone, clay, and glass fields.

Despite many difficulties, even lumber and lumber products are almost half again above prewar levels.

Throughout the soft-goods fields the output is not as high in relation to prewar averages as the heavy- and durable-goods fields—with a few exceptions such as rayon and industrial chemicals.

Goods that have been long scarce have reappeared in increasing quantities in the Nation's stores from month to month since the latter part of 1946. This is a fact that can be sensed by the average consumer, by observation of trade journals, by reports of buyers' activities, and so forth. There is growing evidence of improved balance in consumer-goods inventories at the industrial level and at the retail level as well.

The NAM said last year that production would go up if price controls were removed, and production has most certainly gone up.

PRICES

The subject of prices in the reconversion and postwar periods has become highly controversial. The problem of cost-price relationships cannot be solved by finger pointing and name calling. Analysis of the factors involved, not recrimination, is called for. In this brief statement I cannot present a complete analysis of the price situation, but I can deal with some of the underlying problems and present some of the basic facts of price trends.

During the war period, price controls and rationing of consumers' goods were necessary. On the one hand, there were tremendous inflationary pressures due largely to deficit financing of the war. On the other hand, the Government deliberately curtailed the production of consumer goods so that a maximum of our labor force and productive facilities could be used for war production. With increased purchasing power on the one hand and a great shortage of goods on the other, consumers' prices could have gone through the roof. Hence drastic price controls were imposed. Rationing of foods, gasoline, oil, tires, and other items was set up to assure a fairly equitable distribution of essential goods among the civilian population.

With the cessation of hostilities, most rationing was immediately eliminated, thereby releasing a great pent-up demand for many commodities. But price controls were retained for over a year after the cessation of hostilities. This prolonged continuation of price controls restricted production of important lines because price ceilings were too low to allow for increased costs. Since producers could not afford to produce at a loss, many important items did not come onto the market in sufficient quantities. In maintaining price controls long after VJ-day, the Government in effect was sitting on the lid. The NAM believed that this was not a solution of the problem.

Recorded prices during OPA, in many cases, did not represent true prices because:

A. Many prices were kept low by subsidy payments to producers, especially of farm products. In this way, higher prices were really paid out of taxes.

B. Many of the items priced in the indexes could be bought only on the black market at over-ceiling prices. Black market prices did not get into the indexes.

C. Many items in the price indexes reflected lower quality, therefore the official figures concealed some price increases.

The official indexes of prices throughout the whole period of price control, and more particularly in its later months, did not reflect true prices. Therefore, it was to be expected that when controls were removed or greatly relaxed and when subsidies were removed, there would be a short period of turbulence in the price indexes. In other words, the process would be like releasing a compressed spring. For a while it would jiggle up and down and then settle at a new level.

The following table (table II) gives three of the major price indexes and average hourly earnings in manufacturing from 1939 through May or June, 1947 (whichever is the latest available figure).

TABLE II.—*Hourly earnings in manufacturing, cost of living, wholesale prices (middle of month)*

[1939=100]

	Hourly earnings in manufacturing	Cost of living	Wholesale prices: All commodities	Wholesale prices: Manufactured products
1939—Average	100.0	100.0	100.0	100.0
1940—January	103.5	100.1	103.2	101.7
February	103.3	100.7	101.7	100.9
March	103.8	100.4	101.6	100.9
April	103.6	100.5	101.3	100.6
May	104.3	100.7	101.9	101.4
June	104.6	101.1	100.5	100.0
July	103.9	100.9	101.2	100.6
August	104.3	100.6	100.3	100.7
September	104.7	101.0	101.2	101.4
October	105.1	100.8	101.4	101.4
November	106.0	100.7	103.0	102.6
December	106.8	101.3	103.5	103.1
1941—January	107.9	101.4	104.7	103.8
February	108.2	101.4	104.5	103.8
March	108.8	101.8	105.1	104.1
April	110.9	102.8	107.7	106.1
May	113.9	103.5	109.9	108.1
June	115.6	105.2	112.6	109.9
July	116.1	105.9	114.4	111.4
August	116.3	106.8	116.4	113.1

TABLE II.—*Hourly earnings in manufacturing, cost of living, wholesale prices (middle of month)*—Continued

[1939=100]

	Hourly earnings in manufacturing	Cost of living	Wholesale prices	
			All commodities	Manufactured products
1941—September	118.2	108.8	119.0	115.2
October	120.2	110.0	119.1	115.9
November	122.1	110.9	119.9	116.6
December	123.7	111.2	120.9	117.2
1942—January	126.5	112.7	124.2	119.6
February	126.9	113.6	124.9	120.1
March	128.1	115.0	126.1	121.3
April	129.9	115.8	127.7	122.2
May	131.9	116.7	127.9	123.0
June	133.5	117.1	127.8	122.4
July	135.2	117.7	127.7	122.3
August	137.4	118.2	128.4	122.8
September	140.9	118.5	128.8	123.0
October	141.1	119.7	129.4	123.5
November	143.0	120.5	130.0	123.5
December	143.3	121.1	130.5	123.7
1943—January	145.2	121.4	131.9	124.3
February	146.0	121.7	132.6	124.5
March	147.6	123.5	134.0	124.7
April	149.1	124.8	134.4	124.9
May	150.6	125.9	134.8	125.2
June	151.5	125.6	135.1	124.8
July	152.1	124.6	133.6	123.4
August	152.4	124.1	133.4	123.9
September	156.9	124.6	133.6	124.0
October	156.1	125.2	133.6	124.3
November	157.3	124.9	133.5	124.3
December	157.2	125.2	133.6	124.4
1944—January	158.3	124.9	133.8	124.4
February	158.5	124.5	133.9	124.7
March	158.9	124.5	134.5	124.7
April	160.0	125.4	134.8	125.0
May	160.7	125.9	134.5	125.2
June	160.7	126.2	134.7	125.2
July	160.8	126.9	134.9	125.2
August	160.5	127.2	135.1	125.3
September	163.0	127.3	134.5	125.3
October	162.9	127.3	134.8	125.4
November	163.5	127.4	135.2	125.4
December	164.3	127.8	135.6	125.5
1945—January	165.2	127.9	136.0	125.7
February	164.8	127.7	136.4	125.9
March	164.9	127.6	136.5	126.1
April	164.9	127.9	137.0	126.4
May	164.6	128.9	137.3	126.4
June	164.0	129.8	137.7	126.4
July	163.2	130.2	137.1	126.3
August	161.8	130.1	137.0	126.5
September	155.9	129.7	136.0	126.1
October	155.6	129.7	136.8	126.3
November	156.4	130.1	138.1	126.6
December	157.0	130.7	138.6	127.1
1946—January	158.6	130.7	138.6	127.4
February	158.3	130.4	139.2	127.9
March	163.5	131.0	140.8	129.2
April	167.1	131.7	141.9	129.9
May	169.2	132.5	144.0	131.5
June	171.2	134.1	145.2	132.3
July	172.7	141.9	156.8	142.9
August	175.7	145.0	166.6	152.3
September	177.9	146.8	158.1	143.6
October	178.5	149.3	163.6	147.0
November	179.9	153.1	176.4	161.6
December	181.4	154.2	181.4	167.0
1947—January	183.4	154.0	182.9	169.0
February	184.8	154.1	185.8	172.4
March	186.4	157.2	192.6	176.1
April	187.4	157.0	192.3	176.0
May	191.2	156.7	190.9	176.2
June	----	----	191.7	177.1

Source: Bureau of Labor Statistics.

Over-all price increases in basic indexes have been as follows:

From mid-June to mid-November—roughly the period of no controls and relaxed controls—the wholesale prices of all commodities increased 21.5 percent; during the same period the wholesale price of finished manufactured goods increased 22.1 percent. The cost of living increased 14.2 percent in the same period.

From mid-November to mid-June—the period when all controls were off—the wholesale prices of all commodities increased 8.7 percent, and of finished manufactured goods 9.6 percent. The cost of living from November to mid-May rose only 2.4 percent.

The figures show that all prices increased only moderately from 1942 through 1945, the war years. This was due to the arbitrary handling of prices already referred to. But it is amazing that the lifting of controls has resulted in such moderate price increases, considering the fact that until July, 1946, we had imperfect reporting of actual prices; that price ceilings did not allow sufficiently for increasing costs; and, that many of the goods priced were available only in black markets. Moreover, all the price indexes have flattened out since March of this year.

In indicating the broad price movements since 1939, it might be well to note that all commodities have increased 91.7 percent, while finished manufactured goods have increased only 76.8 percent, and the cost of living only 56.7 percent.

In view of greatly increased costs, I believe that manufacturers' prices have been kept well in line.

WAGES

Wages must be examined from at least two general standpoints. On the one hand, they are income; on the other hand they are costs.

From the standpoint of income, the record shows that in the manufacturing field, as a whole, average hourly earnings actually have moved up ahead of consumer prices—the cost of living—ever since 1939. Wage rates have been "out in front" all the way. There has been much ado about one period—between VJ-day and the end of 1946—when some held that labor was being squeezed. But all that happened in this period was a slight reduction of the wide spread between soaring war-time wage levels and the cost of living.

Average hourly earning of factory workers in May 3, 1947, were 91.2 percent higher than in 1939; while the cost of living was only 56.7 percent higher. Real wages have actually increased 22 percent through this period. Those who make comparisons between wages and prices from a starting point around VJ-day (to indicate that workers have been losing ground) merely blot out and ignore the enormous gains and advantages obtained in the wage structure prior to these starting points and since 1939.

Regarded as a cost, this record of wages goes far indeed toward explaining prices and price trends. The direct wages paid by a particular manufacturer may amount to 10 or 25 percent or even 50 percent of the price of his product. But it is obvious that there are more wage costs in all the materials, supplies, and components that the typical manufacturer buys. Additional wages and salaries go to his salesmen, his accountants, and his engineers. There are wages in the transporting of materials to his door and in the transporting of finished products away from his door.

Throughout the long chain of production and distribution, wages tend to pyramid into the ultimate price of the finished product. Wage increases within a given plant do not reflect the full effect of wage increases throughout industry. The manufacturer pays, through increased costs for his materials, for the wage increases granted in supplying industries. For example, the wage increases recently granted to coal miners will be reflected in increased costs of manufactured products and of transportation. Ultimately, such a wage increase is pyramided in the final price which all of us pay.

It is difficult to trace the full effect of widespread wage increases throughout our economy. But this much we know:

In the last analysis nothing is made and nothing is moved without labor. Therefore, broad and fundamental wage changes reverberate throughout the entire economic structure and constitute the overwhelming bulk of the price of the finished product by the time it finally reaches the consumer. In the final analysis, labor costs are from 75 to 85 percent of all costs.

We have observed the overwhelming pressures of wages upon prices, and of prices upon wages. It is difficult to say which causes which to move, unless we select a somewhat arbitrary starting point for our discussion. But I think we will all concede that wages and prices tend to move hand in hand in a period of broad and basic economic changes. There are, of course, various important lags and leads, but wages never can get very far out of line with prices for any long period of time. They constitute a comparatively fixed proportion of the sales dollar.

Production is the real answer to real wages. We cannot have things which we do not produce. We get more only by producing more.

PROFITS

Profits are the spark plug of our economy. Yet from much of the current discussion of profits, one would think they are a burden on our economy and that it would be better if all business concerns—incorporated and unincorporated—operated constantly at the break-even point. "Production for use and not for profit" is the seductive slogan to the Socialists. But a dynamic society cannot operate on such a basis. Even a Socialist state has to keep its operations in the black. To me, profits are associated with freedom. Elsewhere I have said:

"The important thing is not the difference between average profits in a year of great demand, and average profits in a year of business failures left and right. The important thing is whether X company or Y company or Z company made enough to stay in business and go forward.

"The important thing is whether past profits or the outlook for profits to come is attractive enough to make persons who have the funds to invest feel like risking their money, despite losses already sustained, or despite the possibility of future losses.

"Finally, more important than profits as such—either their 'bigness' or their 'littleness'—is the effect which the freedom to make a profit has on everybody.

"Freedom to profit is what impels the enterpriser to try to produce a better product than his competitor. It drives people into never-ceasing effort to surpass other people in giving the consumers and users what they want, when they want it, and at a price they want to pay."

Much of the current discussion has been of over-all aggregate profits without regard to the volume of sales. Such discussion is bound to give a distorted and unreal picture.

According to a study released by the United States Department of Commerce on June 17, net profits of manufacturing corporations, after taxes, in 1946, were 6⅓ billion dollars. In total dollar volume, this figure is the highest in our history. Manufacturers' profits were about 12.8 percent higher than in 1943—the previous peak year.

Many people have the naive notion that profits are available in cash. The businessman knows this is not so. To a considerable extent, profits represent accruals of physical assets. The accrual of assets in recent years has been largely affected by price increases. A large part of the profits in 1946 were due to the increases in inventories and the higher prices of these inventories. The Department of Commerce said:

"An aspect of the recent profit trend meriting special attention in judging the corporate profit and investment situation is the increase in the value of inventory holdings that resulted from the rise in prices. It is extremely difficult to separate the increase in the book value of inventories arising from the price change from the increase resulting from the physical addition to stocks."

Yet this vital point has been completely ignored by those special pleaders who charge business with exorbitant profits.

Stockholders in all corporations have not benefited much from dividend payments in the past 5 years despite a considerable increase in profits over those of the 1930's. This is because corporations have had to retain an unusually large portion of profits for capital needs. In 1946, only 44 percent of corporate profits were paid out in dividends. In fact, since 1942 dividend payments ranged from 43 to 53 percent of profits.

If we consider aggregate profits, it is fair to consider them also in relation to aggregate wages. This comparison can best be made with respect to manufacturing industries and is shown in the following table III.

TABLE III.—*Manufacturing corporations profits and total wages in manufacturing industries*

[Millions of dollars]

	Manufacturing corporations profits (net after taxes)	Total wages in manufacturing industries		Manufacturing corporations profits (net after taxes)	Total wages in manufacturing industries
1929	4,392	10,996	1938	1,129	7,954
1930	1,318	8,893	1939	2,941	9,390
1931	−487	6,742	1940	3,818	10,752
1932	−1,426	4,648	1941	5,695	15,729
1933	576	4,986	1942	5,209	23,025
1934	1,047	6,414	1943	5,605	31,401
1935	1,776	7,381	1944	5,373	32,463
1936	2,874	8,564	1945	4,553	27,551
1937	2,923	10,217	1946	6,338	25,016

NOTE.—Profits, net after taxes.

Source: Profits, U. S. Department of Commerce; wages, based on Bureau of Labor Statistics data.

It will be noted that wages in manufacturing increased from $9,390,000,000 in 1939 to $25,016,000,000 in 1946, an increase of 166 percent. This reflects not only increases in wage rates but fuller employment. During the same period aggregate profits of manufacturing corporations increased from $2,941,000,000 to $6,338,000,000, an increase of 115 percent.

The best over-all measure of the rate of profits is the return on sales. Viewed in this way, corporate profits, though high in 1946, are neither exorbitant nor unprecedented. In 1946 profits of all corporations were 5.1 percent of sales, based on United States Department of Commerce figures. This ratio was exceeded in 1941 when the rate was 5.2 percent and in 1929 when it was 6.0 percent. Manufacturing corporations had a profit rate of 5.0 percent in 1946, compared with 6.2 percent in 1941, 5.8 percent in 1940, and 6.2 percent in 1929.

Again, it is instructive to compare the profit rate (percent of sales) with wage rates (average hourly earnings). This is done for manufacturing in table IV. Wage rates, as measured by average hourly earnings, have risen from 63.3 cents per hour in 1939 to 108.4 cents in 1946, an increase of 71.2 percent. (In May 1947 average hourly earnings were 121.0 cents.) But profit rates have shown no such increase. Profit rates from 1939 to 1946 have ranged from 3.3 percent in 1945 to 6.2 percent in 1942. As a matter of fact, the profit rate in 1946 (5.0 percent) was slightly lower than in 1939 (5.1 percent).

TABLE IV.—*Profit margins on sales—Manufacturing corporations and average hourly earnings in manufacturing industies*

	Manufacturing corporations profit margin on sales	Average hourly earnings in manufacturing		Manufacturing corporations profit margin on sales	Average hourly earnings in manufacturing
	Percent	*Cents*		*Percent*	*Cents*
1929	6.2	56.6	1938	2.3	62.7
1930	2.3	55.2	1939	5.1	63.3
1931	−1.1	51.5	1940	5.8	66.1
1932	−4.6	44.6	1941	6.2	72.9
1933	1.7	44.2	1942	4.5	85.3
1934	2.6	53.2	1943	3.9	96.1
1935	3.8	55.0	1944	3.6	101.9
1936	5.1	55.6	1945	3.3	102.3
1937	4.8	62.4	1946	5.0	108.4

NOTE.—Profits, net after taxes.

Source: Profit margins based on U. S. Department of Commerce data; hourly earnings, U. S. Bureau of Labor Statistics.

NATIONAL INCOME

National income is the best single measure of the net value of goods and services produced in a single year and of the shares of the national product going to the various segments of our economy. While national income fluctuates with periods of prosperity and depression, the relative shares paid out in compensation to workers and to various types of property owners remains substantially unchanged. There are, however, minor variations even in the relative shares when shifting from a period of prosperity to one of depression. The war also shifted slightly this relative share of national income, but we are now returning to the normal type of distribution.

For example, in depression years profits fall or may even be converted into over-all deficits and this shift tends to increase the relative share paid out in wages and salaries. In the war years, total wages and salaries were relatively large because, in addition to a large civilian labor force, we maintained as many as 10,000,000 men in the armed services whose compensation tended greatly to increase the relative share of the national income paid out for compensation. I mention this because the return to the normal proportion of national income paid out in wages and salaries has been interpreted by special pleaders as evidence of a redistribution of national income, whereas what we are experiencing is merely a return to a normal labor force, exclusive of a large Army and Navy personnel.

Let me high light a few features of the trend in the relative shares of national income:

(*a*) Compensation of employees has, since 1929, fluctuated around two-thirds of the national income.

(*b*) Corporate profits—barring severe depression years when there have been over-all deficits—have been around 6 to 7 percent of national income with the highest point 8.8 percent in 1941.

(*c*) The income of unincorporated business, including compensation of the entrepreneur, such as farmers and small businessmen, has been around 16 percent of national income. Because of greatly increased income of farmers, this type of income reached 18.3 percent of national income in 1946.

(*d*) Interest, net rents, and royalties before 1939 were roughly 10 to 17 percent of national income, but have, in the past 5 years, ranged from 6 to 8 percent.

FOREIGN TRADE

Without a soundly based international trade, the world cannot prosper. But international trade cannot raise living standards unless each country first puts its own house in order. We can do our greatest share for world rehabilitation and progress by keeping our own house in sound and prosperous condition. This is our first and our paramount task.

We all realize that our former allies in Europe need a great deal of help from us if they are to be able to help themselves and be able to participate effectively in a sound exchange of goods and services.

In terms of national income our exports today are higher than in almost any peacetime year. However, they were higher relative to national income in the first year of peace following World War I than they were in the corresponding year following World War II—12 percent in 1919 as against 8 percent in 1946. Total exports of goods and services in 1946 was 15.3 billion dollars but foreign sales to us amounted only to 7.1 billion dollars. At the rate we are now going, the difference is getting steadily wider and it is estimated that our total exports for this year will reach $20,000,000,000 with very little change in the volume of imports.

It is also estimated that foreigners will have only $12,000,000,000 (inclusive of their exports to us) with which to pay. If we are to meet this deficit by loans or gifts, we must make sure that, in our desires to help our friends abroad, we do not disrupt our own economy. This can easily be done and, as a matter of fact, it has already been done through enormous Government purchases of farm and food products. The consequent price rise has raised our living costs to the detriment of consumers.

In our sincere efforts to help our friends help themselves, we must bear in mind that such help has repercussions at home too. Billions of our own dollars spent for foreign purchases in this country cannot but push prices upward.

I have presented these thoughts to you because I believe that foreign trade and foreign aid are problems we must face. The world needs not only goods but also our know-how and our spirit of enterprise. These problems are extremely complex and I have no panacea to offer. But I would like to impress upon you that we must analyze all aspects of the picture if we are really to achieve our goal of helping others to help themselves to prosperity and peace.

MONEY AND CREDIT

Sound fiscal and financial affairs are necessary if business is to be able to render its best service to the public. Unbalanced Federal budgets, deficit financing, and other threats of inflation are not conducive to good business and prosperity.

During the war, sound financing was set aside in every country in the world. We were no exception to the rule. Our public debt is staggering and the need for private venture capital great.

Today the money supply is three times as high as in 1939. It is about $107,000,000,000. Since October of 1946 a slight decline has occurred but the general level is about the same as at the end of 1945. The extent to which these available funds constitute an inflationary threat depends on public psychology and fundamentally on increased production at low unit costs.

THE NEED FOR CAPITAL

To continue to grow and prosper, and provide reasonably full employment, we must accumulate savings needed for capital formation. There is no more important factor for sustained employment than adequate capital investment. Our whole history demonstrates this. Basic studies by the National Bureau of Economic Research, and more recently by the United States Department of Commerce, show that in the past three-quarters of a century we have had to devote roughly one-fifth of our gross national product to capital investment. The accumulated investment of new capital and the replacement of worn-out and obsolete capital—in the form of plants, machinery, and equipment—have enabled us to increase the output of workers. This has also enabled us to increase real wages and raise the general standard of living of our people.

The NAM, in its testimony before the House Ways and Means Committee, has made this problem the keynote of its proposals for tax reduction. Our program is based on a careful study of the needs of the Nation for capital investment over the next 10 years and of the sources of savings from which this capital investment must come. Our study further demonstrates that the present system of taxation must be substantially overhauled to make it possible for our country to grow according to the normal, historical trend. To have steady employment, continued prosperity, and a rising standard of living, this trend must be resumed.

It is impossible for me, in this brief statement, to summarize the basic study upon which our tax proposals are based. Because of the importance of this subject to the work of this committee, I am taking the liberty of attaching to this brief a copy of that part of our testimony which deals with the need for capital formation. I should like to point out, however, that we estimate that the total need for capital formation will increase annually from $42,000,000,000 to about $50,000,000,000 in 1956. In its study, the NAM has made annual estimates of the amount of savings available from various sources: (*a*) Business reserves, (*b*) corporate retained earnings, (*c*) Government, and (*d*) individuals.

We have made a distinction between venture and nonventure savings. Nonventure savings consist of institutional savings, absorption of bank deposits created by bank loans, and the absorption of liquid assets now held by corporations. Our study also shows that most of the venture savings of individuals, as distinct from corporate venture savings, come from those individuals in the higher brackets of income—primarily those who have incomes of more than $10,000 a year.

We find that, so far as total savings are concerned, the deficiency of savings with respect to capital needs will increase from 4.5 billion dollars in 1947 to 7.3 billion dollars in 1951. From this point on, the deficiency will drop and will run at the rate of about 1.7 billion dollars throughout 1956. This would seem to indicate that there would be a great drop in the need for savings after 1951, but that is an incomplete and misleading assumption. We find, when we estimate the amount of venture savings which will be available, as compared with the investments which will have to draw on this type of savings, that there will be a great increase in the deficiency in 1950 and 1951 and that from 1952 through 1956 it will run at about $9,000,000,000 a year. This is shown in the following table:

TABLE V.—*Prospective deficiency in savings*

[In billions of dollars]

	Deficiency in total savings	Deficiency in venture savings		Deficiency in total savings	Deficiency in venture savings
1947	4.5	1.2	1952	1.6	8.4
1948	5.1	2.1	1953	1.7	8.7
1949	5.1	2.1	1954	1.6	9.1
1950	6.6	13.0	1955	1.6	9.4
1951	7.3	13.9	1956	1.7	9.8

Our findings, we believe, have important implications for your committee. To provide sufficient savings to take care of the increasing need for capital formation, our whole tax structure must be revised and we must have a general lowering of Government spending and taxing.

SUMMARY

In my judgment, there is much reason today for the people of this Nation to look forward to the future with confidence. Production is steadily rising and, equally important, it is becoming better and better balanced. Total-wage payments have held up amazingly well in our reconversion from war to civilian production. Prices are high as compared to prewar, but the increase has been less than the rise of wages, and during the past 4 months the price level has definitely flattened out. We yet have to see the full effects on prices of the current round of wage increases. But if we can keep production and productive efficiency moving forward, we should be able to hold this potential price rise from getting out of hand.

For the general situation to be this favorable only 2 years after the end of the war should be a source of real pride to the American people. But it would be a serious error to assume that we are now in a position to rest on our oars. Two major problems confront us and they must be solved if the Nation is to continue to move forward:

The first of these problems is to make the necessary changes in our tax laws to provide the capital formation essential to the continued growth of production and the provision of jobs for our growing labor force. This is a problem which must be solved by the Congress.

The other problem is for all of us to forget our selfish group interests and, in a spirit of genuine unity, put our shoulders to the wheel.

By "unity" I mean not only teamwork in the productive activities of our Nation but unity of understanding of what has made America great; of what is needed to perpetuate this greatness; of what real, wholehearted teamwork means to the future of every worker in this land, the future of our Nation—indeed, the future of the whole world—for only a strong, united America can insure peace in the years to come.

That is why we have approached this presentation with a full recognition of the tremendous import of the problems with which you are dealing. We have confidence that you share this recognition and that you will provide the leadership that will carry the American people safely through the turbulent times that lie ahead of us.

APPENDIX

STUDY ON CAPITAL FORMATION AND TAXES SUBMITTED ON JULY 11, 1947, BY THE NATIONAL ASSOCIATION OF MANUFACTURERS TO THE HOUSE WAYS AND MEANS COMMITTEE

CAPITAL FORMATION AND TAXES

It is customary to approach the problem of taxes from the point of view of how much the Government proposes to spend and, then, when this is determined, devise ways and means to collect the needed amount from the taxpayers of the Nation.

When the amount is small—either in dollars or as a percent of the national income—such an approach to the tax problem is economically sound. In these circumstances the total amount collected in taxes is not enough to disrupt the economic system, and consequently the primary consideration is simply that of distributing the tax burden equitably.

But today the potential demand for funds on the part of the Government has become so great and the tax burden in this Nation has become so heavy, that it no longer is safe from the point of view of the future welfare of our Nation and our people to think only in terms of the distribution of the tax burden.

Today the first and primary consideration must be not how to collect so many billions of dollars, but how many billions can we afford to collect in taxes if the country is to continue to progress, if we are to continue to have full employment and full production, if our people are to continue to enjoy a steadily higher standard of living.

The tax problem of this country, we submit, therefore becomes one now of substantial relief for all the people from the crushing burden of wartime taxes, plus the maximum of assurance that this relief will be so planned as to promote the continuation of industrial and agricultural growth, prosperity for all, security for the individual, and the national strength which will mean so much to world peace in the years to come. That is why we are here proposing both a new approach to the tax problem and specific measures to implement this approach, all to the end of providing—

The maximum of tax relief now to all citizens, and the maximum of protection for all citizens against unemployment, distress, and national weakness in the years immediately ahead.

To answer the question of how much this country can afford to pay in taxes, it is necessary to keep one fact constantly in mind: When Government collects taxes from the people it does not reduce the total volume of buying power in the country. What happens when Government takes away part of the people's income is simply that Government, instead of individuals or private organizations, spends the money. In other words, taxation is, in its immediate impact, a problem not of how much buying power there is in the economic system, but of who is to use this buying power and in what ways.

In view of this irrefutable fact is there any possible answer to the question of how much taxation our Nation can stand and still prosper?

If we are to answer the question of how much taxation we can afford, we must find some way to distinguish between that taxation which represents merely the transfer of an inescapable burden and that taxation which undermines the economic progress of the Nation. We must find some bench mark without which the Nation and our people cannot continue to progress. This bench mark must be one which would remain the same regardless of whether the Federal Government proposes to spend 20, 30, or 40 billion dollars, and regardless of whether our national income is 150, 175, or 200 billion dollars. In other words, we must have a bench mark which is definitive in the sense that we can say with positiveness that unless such and such is done the Nation cannot continue to grow and prosper, regardless of what else may be done.

Fortunately, there is such a bench mark. It is the amount, on the average, of each dollar of goods and services produced which, instead of being consumed, is saved and through investment is used for further production. In technical terms, this is known as capital formation. It includes not only machines and factories, but everything used in the productive process.

We have data on the amount of such capital formation from 1869 to the present. The data from 1869 through 1939 were compiled by the National Bureau of Economic Research. From 1909 through 1946 similar data have been compiled by the United States Department of Commerce. These two organizations have used somewhat different definitions in their studies, but when allowance is made for the differences the results are so nearly identical as to remove any doubt as to their fundamental accuracy.

Specifically, as the following table shows, just about one-fifth of the Nation's total production must be devoted to capital formation.

Percent of gross national product devoted to capital formation

Period:	*Gross capital formation as percent of gross national product*	Period:	*Gross capital formation as percent of gross national product*
1869–78	18.9	1899–1908	20.1
1874–83	18.9	1904–13	19.7
1879–88	19.3	1909–18	20.7
1884–93	20.8	1914–23	21.7
1889–98	21.3	1919–28	20.8
1894–1903	21.1		

Sourse: National Bureau of Economic Research.

This capital formation has been accompanied by growth in production as shown by the following figures:

Gross national product

[In dollars of constant purchasing power]

Period	Gross national product (in billions of dollars of 1929 purchasing power)	Period—Cont.	Gross national product (in billions of dollars of 1929 purchasing power)
1869–78	10.3	1899–1908	41.2
1874–83	14.8	1904–13	49.8
1879–88	19.5	1909–18	56.5
1884–93	23.1	1914–23	64.5
1889–98	26.7	1919–28	77.8
1894–1903	32.9		

Source: National Bureau of Economic Research.

Not only has total output increased, but the product per man-hour of labor has also grown phenomenally.

This increase in productivity is a direct result of the worker being given more and better machinery and tools with which to work; that is, of capital formation.

The recor dof the product per man-hour in manufacturing industries since 1899 is shown in the following table:

Product per man hour in manufacturing

[1899=100]

Year	Product per man-hour	Year—Continued	Product per man-hour
1899	100	1923	179
1909	118	1925	200
1914	137	1927	213
1919	135	1929	238
1921	164		

Source: National Bureau of Economic Research.

Because of the increase of productivity resulting from capital formation, real wages have risen in this manner:

Real hourly earnings in manufacturing, 1869–1929

[Cents]

1869	21.9	1890	27.6	1911	30.0
1870	23.2	1891	28.9	1912	29.5
1871	24.0	1892	28.5	1913	31.3
1872	24.1	1893	29.6	1914	31.1
1873	24.6	1894	29.7	1915	35.7
1874	24.0	1895	29.7	1916	37.1
1875	24.5	1896	30.0	1917	35.8
1876	24.8	1897	29.2	1918	37.6
1877	23.9	1898	29.4	1919	38.5
1878	23.5	1899	29.4	1920	38.9
1879	23.4	1900	29.2	1921	40.0
1880	23.5	1901	29.0	1922	40.4
1881	23.3	1902	29.3	1923	42.8
1882	22.9	1903	29.1	1924	44.8
1883	24.6	1904	29.4	1925	43.6
1884	25.9	1905	29.8	1926	43.4
1885	26.6	1906	29.9	1927	44.4
1886	26.3	1907	29.3	1928	45.8
1887	27.6	1908	29.7	1929	46.2
1888	26.9	1909	30.0		
1889	27.2	1910	29.7		

Source: Based on data from the Bureau of Labor Statistics, and Paul H. Douglas' Real Wages in the United States, 1890–1926.

During this 60-year period, 1869–1920, the Nation, by devoting approximately one-fifth of its output to capital formation, has been able to increase its production at an average rate of 3.8 percent per year. This is a record of achievement without equal in the history of any other nation in the world.

The record of the decade, 1929 through 1938, is equally impressive—in reverse. This was the first 10-year period in our history when the Nation did not reach a new high level of production. This also was the first 10-year period since the Civil War when capital formation fell substantially below the historical percentage previously noted.

Specifically, the record of capital formation from 1929 through 1938, as compared to what would have been necessary if the Nation had progressed at its historic rate, was as follows:

Capital deficiency, 1930 though 1938

[Billions of dollars]

Year	Private gross capital formation		Deficiency in private gross capital formation	Year	Private gross capital formation		Deficiency in private gross capital formation
	Actual	Required			Actual	Required	
1929	17.6	16.9	(1)	1934	5.3	10.9	5.6
1930	12.1	15.0	2.9	1935	6.7	12.0	5.3
1931	6.4	12.2	5.8	1936	10.0	13.9	3.9
1932	2.2	9.4	7.2	1937	11.6	14.9	3.3
1933	3.3	9.3	6.0	1938	7.7	13.7	6.0

[1] Required less than actual capital formation.

Source: Computed from data of U. S. Department of Commerce.

Such a record does not mean that it was the absence of capital formation which caused the depression of the 1930's. But this record, in combination with that of the preceding 60 years, does prove beyond reasonable doubt that when there is a deficiency of capital formation the Nation neither progresses nor prospers. Or to put this conclusion in positive terms: Unless we have an adequate volume of capital formation, neither the Nation nor its people can progress and prosper; moreover, if the rate of progress is to be that enjoyed for the 60 years from 1869 through 1928, the rate of capital formation must be a certain ascertainable proportion of the gross national product.

This means that we have an excellent tool with which to approach the problem of taxation, both from the point of view of the amount which the Nation can afford, and equally the extent to which various types of taxes may safely be levied, because, as will be explained later, different types of taxes have widely different effects upon capital formation.

The first step in such an approach is to determine the amount, in dollars, of the capital formation necessary to keep the Nation moving forward at its traditional rate. In other words, how much capital formation is necessary to enable our Nation to resume its forward progress of 3.8 percent a year?

Two elements are involved in arriving at an answer to this question.

Our economic system today is not in good working order. At numerous places, in some cases because of inadequate capital replacement in past years and in other cases because of shortages and intensive operation during the war, our productive organization is in need of extensive rehabilitation. If we are to have an accurate idea of the amount of capital formation needed from here on, allowance must be made for this rehabilitation.

This is not an easy problem. The best that anyone can do is to make an intelligent estimate. And the best means for doing this is to start with the fact that, according to Department of Commerce figures, the capital formation deficiency during the past 10 years has amounted, in the aggregate, to $125,000,000,000. This $125,000,000,000, in other words, is the additional amount which would have had to be devoted to capital uses if the Nation had progressed during these years at the predepression rate.

It is not to be expected that this entire deficiency will be made up. And neither is it necessary. The mere passage of time means that, had such capital been created during the 10-year period, much of it—machines, for example—would already be worn out or obsolete. Therefore, to be on the conservative side, from the point of view of future capital needs, let us assume this passage of time eliminates the need for restoring half of the accumulated deficiency, reducing the total to some $62,500,000,000.

But making up even this amount of deficiency will take time, and again this will reduce the amount necessary. So, to allow for this, let us again be conservative and once more cut the total in about half, or to $30,000,000,000.

This, then, gives us a fair and reasonable over-all rehabilitation figure. But it leaves the question of how rapidly the capital formation for this purpose can, or will, take place.

From the point of view of the American public, the more quickly this rehabilitation is completed, the better it will be because it will mean that the Nation and our standard of living will get back on the uptrend just that much sooner. But it takes more than mere wishing to bring about such a result. It involves the whole problem of the adequacy and character of savings, the availability of supplies and the general outlook for investment. So, once again, let us be conservative and assume that this necessary rehabilitation process is extended over a 5-year period at the rate of $6,000,000,000 a year.

In making this assumption it is imperative to keep in mind that it is conservative, that it probably should be considered as the absolute minimum, and that the American people would be served well if steps could be taken to speed up this rehabilitation process.

What of the other aspect of the need for capital—the amount, aside from that for rehabilitation, which is necessary if the Nation is to resume its upward trend? This is relatively simple to determine.

As explained before, the record shows that this must be a definite percentage of the gross national product. Applying this percentage as developed by the Department of Commerce—in order to have up-to-date figures on an annual basis—we find that for this purpose we would need $36,000,000,000. This, added to the conservatively estimated need of $6,000,000,000 for rehabilitation, means that, at the minimum, it is necessary to have $42,000,000,000 of capital formation in 1947 if the Nation is to move forward at its historic rate of progress.

We can assume that in 1948 the need for rehabilitation will remain the same; which also will be true for the following 3 years. But granting we resume our forward march at the rate of 3.8 percent per year, so will the need for capital formation increase at this rate. This would mean that, while $42,000,000,000 is the minimum necessary for 1947, we must have a minimum of 43.4 billion dollars in 1948. And year by year thereafter the amount will increase. Specifically, with allowance made for the completion of the rehabilitation process in 5 years, the need for capital formation over the next 10 years will be as follows:

	Billions of dollars		*Billions of dollars*
1947	[1] 42.0	1952	43.4
1948	[1] 43.4	1953	45.0
1949	[1] 44.8	1954	46.7
1950	[1] 46.3	1955	48.5
1951	[1] 47.8	1956	50.3

[1] Years of rehabilitation.

The next step is to examine the possibility of our actually getting such a volume of capital formation. For this purpose we need to analyze four segments of the economy—because there are only four sources from which capital formation can come.

The first of these four sources is business reserves. Every year, of necessity, business sets aside from its revenues large sums to provide for the wearing out of its productive facilities. According to the data compiled by the Department of Commerce, business thus set aside 9.6 billion dollars in 1946. This provides a basis for estimating how much in the way of funds for capital formation will be provided from business reserves in future years.

Were it not for one complicating factor, we would be justified in assuming that this will be the amount of capital formation provided from this source from now on (with proper allowance, of course, for the 3.8 percent annual increase). This complicating factor is that, because of the rise of prices as compared with prewar, the machines which are bought today cost substantially more than did the machines which they replace. In estimating the future of capital formation from this source, therefore, it is imperative to make allowance for this price change—for the fact that it may cost $75,000 to replace a machine which originally cost $50,000.

Since business reserves are computed by amortizing original cost rather than replacement cost, they will be greater in future years as present assets are replaced by more expensive ones. What the difference will amount to in terms of dollars depends upon both the amount of the price increase and the speed with which replacements take place. On the basis of available data it appears that, on the average, it is reasonable to assume a 50-percent increase for this type of item. If we allow 5 years for this increase to be fully worked into the cost of capital replacements, then we can estimate that the capital formation derived from business reserves will be as follows:

	Billions of dollars		*Billions of dollars*
1947	10.8	1952	16.5
1948	12.1	1953	17.1
1949	13.3	1954	17.7
1950	14.6	1955	18.4
1951	15.9	1956	19.1

The second source of capital formation is Government. This occurs when tax collections exceed the current expenditures of Government for goods and services. The process may be viewed as one by which Government takes away from the disposable income of individuals an amount which the Government itself does not spend. As such, these excess tax collections of Government become available as a source of capital formation and, as the data are compiled by the Department of Commerce, must be so considered.

What such excess tax collections will amount to in future years will depend, first, upon how much Government pays out in such items as financial aid to farmers or business, and, second, upon how rapidly the public debt is retired. In 1946 it appears from the National Budget figures of the Department of Commerce that Government, largely through subsidies and loans, made a contribution to capital formation of 2.4 billion dollars.

Because of commitments already on the statute books it would take considerable time to eliminate this source of capital formation, even should improved conditions throughout the economy convince Congress that elimination of direct Government aid is wise public policy. In view of this, it appears reasonable to assume that for a period of 5 years Government will continue to be a source of capital formation through such activities at a gradually declining rate. If we add to this another 2.5 billion dollars for annual debt retirement—compounded annually for the assumed growth of production—then Government would provide the following capital formation:

	Billions of dollars		*Billions of dollars*
1947	4.5	1952	3.0
1948	4.1	1953	3.1
1949	3.7	1954	3.2
1950	3.3	1955	3.3
1951	2.9	1956	3.4

If the above assumptions in regard to Government as a source of savings for capital formation are to be realized, the Government must not only pursue a salutary tax policy; it must also live within the revenue provided by that tax system.

The third source of funds for capital formation is the retained earnings of corporations. To arrive at an estimate on this item it is necessary to make assumptions on the amount of corporation profits, the volume of taxes which corporations will pay, and the amount which corporations will pay out as dividends.

The easiest of these assumptions is that on taxes. Since the purpose of this analysis is to determine how much and what type of taxes the Nation can afford to pay, we must start with the assumption that corporation taxes will remain at present levels. Only by doing this can we carry through the analysis in such a way as to have a sound basis upon which to say what changes should be made in taxes.

The assumption on the volume of corporation profits is more tenuous, but not exceptionally so. In 1946 total corporate profits before taxes were 21.1 billion dollars. This was distributed: 8.6 billion dollars for taxes, 6.9 billion dollars for retained earnings, and 5.6 billion dollars for dividends.

But in at least two particulars this $21,000,000,000 figure must be modified in thinking of the future. In the first place, according to official estimates, some 4.5 billion dollars of these profits were the result of inventory appreciation, leaving only 2.5 billion dollars for capital formation out of the 6.9 billion dollars of retained earnings. Granting the price level remains steady from here on (as we are assuming throughout this analysis), there will not be a recurrence of such inventory appreciation profits.

The other modification which must be made in this $21,000,000,000 figure, in thinking of the future, is to allow for the increased charges for capital replacement, as noted before in the discussion on business reserves. It may be said that this is merely a matter of corporation accounting; a question of which pocket the money is put into—and that is correct. But obviously it cannot be put in both pockets. Consequently since this increase was allowed for as a source of capital formation under business reserves, it cannot also be included in corporate profits.

It is thus possible to assume (and it probably is as optimistic an estimate as anyone would care to make) that corporate profits will continue at the 1946 rate, less the two factors just mentioned, plus the accretion which would occur from the projected increase of 3.8 percent a year in production.

The final assumption, which must be made in determining what contribution to capital formation will be possible from the retained earnings of corporations, is the amount of earnings which corporations may be expected to pay out in dividends. In 1946, as stated above, dividend payments amounted to 5.6 billion dollars. In view of the level of profits in that year, it might appear reasonable to conclude that this sum, with allowance for the projected growth of production, is a generous estimate to make for the years ahead. Actually, this is far from the case.

The reason such an assumption would be quite unrealistic is that the 1946 volume of dividends was exceptionally low, both as a percentage of the total earnings of corporations and as a share of the national income. To be specific, corporations in 1946 paid out in dividends only 42.5 percent of their earnings as against a customary average of about 80 percent during the 1920's.

The relation of dividends to national income is even more significant. During the decade of the 1920's, and again during the depressed decade of the 1930's, dividends amounted to 6 percent of the national income. In 1946 they amounted to only 3.4 percent of the national income.

Dividends are a source of income, and a payment for a contribution to the productive process, just as truly as are the wages of labor or the income of farmers. It is not reasonable, therefore, to expect the millions of stockholders in this country to settle for half of their traditional proportion of the national income any more than it is reasonable to assume that labor or farmers would settle for half of their historic share of the national income.

Instead it is only fair to assume that, in time, dividends will be restored to the prewar proportion of the national income; that, if it is not done, there will simply be a drying up of investment on the part of stockholders. Obviously, such a restoration does not have to be made immediately, but unless some progress made along this path it is probable that stockholders will become more and more wary of equity investments. So, again, let us be moderate and assume that, although as stated above, corporation profits stay high, the total of dividend payments will be gradually restored over a 5-year period to their historic proportion of the national income.

Such, then, are what appear to us to be the reasonable assumptions to make in connection with the retained earnings of corporations as a source of capital formation.

Put together—the elimination of inventory profits, the assumed increase in dividends, and the continuation of the present corporate-tax rate—these conclusions would lead to a drastic shrinkage in corporate retained earnings as indicated below:

	Billions of dollars		*Billions of dollars*
1947	2.9	1952	—0.7
1948	2.0	1953	—.7
1949	2.1	1954	—.7
1950	.2	1955	—.7
1951	—.6	1956	—.7

It should be repeated (since we are attempting to determine what should be done in connection with taxes) that in these estimates we have assumed that corporation taxes continue to take the same proportion of corporate income as in 1946. Should corporation taxes continue at the present rate, dividends could not be restored to their historic relation to the national income.

The final source of capital formation is individual savings. In 1946 additional savings amounted to $19,000,000,000. This amount bore approximately the same relationship to the disposable income of individuals—disposable income being total income less taxes—that the prewar record indicates is customary. As the shortages of consumer goods are eliminated, it is probable that the public at large may draw somewhat more heavily upon its income and thus reduce the percent saved. On the other hand, if dividends are increased to their prewar relation to the national income, as we have assumed, this will increase the volume of savings.

It would appear reasonable to assume, therefore, that these two tendencies may pretty generally offset each other and thereby result in savings amounting to their traditional proportion of the disposable incomes of individuals. This would give us individual savings as a source of capital in the following amounts:

	Billions of dollars		*Billions of dollars*
1947	19.3	1952	23.0
1948	20.1	1953	23.8
1949	20.6	1954	24.9
1950	21.6	1955	25.9
1951	22.3	1956	26.8

We are now in a position to make a direct comparison between the need for capital formation over the next several years with the sources from which such capital formation may be derived, granting present tax rates are maintained. By adding together the potential sources of capital formation—business reserves, excess-tax collections by Government, retained earnings of corporations, and individual savings—we get the total capital formation which would be possible under existing tax laws. By comparing this with the amount of capital formation necessary for the continued progress and prosperity of the Nation, we have a basis for saying how much additional capital formation must be provided by changes in the tax laws. This over-all comparison is as follows:

[In billions of dollars]

	Capital formation necessary	Amount in sight	Deficiency		Capital formation necessary	Amount in sight	Deficiency
1947	42.0	37.5	−4.5	1952	43.4	41.8	−1.6
1948	43.4	38.3	−5.1	1953	45.0	43.3	−1.7
1949	44.8	39.7	−5.1	1954	46.7	45.1	−1.6
1950	46.3	39.7	−6.6	1955	48.5	46.9	−1.6
1951	47.8	40.5	−7.3	1956	50.3	48.6	−1.7

At first glance this table would appear to indicate that, even without tax reform, the inadequacy of savings with which to provide our needed capital formation is a question of only the next few years. But the problem of savings in relation to capital formation is not only a matter of whether there is a sufficient volume of saving, but equally whether the savings are of the proper character to meet the particular type of capital formation needed. The above table, therefore, is only half of the story. We must now look at the character of savings in relation to the needed capital formation.

This is a problem of the distribution of those savings which their owners are willing to put only in what may be termed risk-free investments, and those savings with their owners are willing to put in more venturesome types of investment. The risk-free investments include Government bonds, deposits in savings banks, insurance, and so forth, and it will be convenient to refer to the savings which are used for these purposes as "nonventure savings." The other type of savings includes those put in corporate securities and unincorporated business undertakings. We shall designate these as "venture savings," and our immediate task is to determine what the volume of such venture savings will be in the coming years in relation to the need for this type of capital formation.

First, let us examine the need for venture savings. At an earlier point in this analysis, we indicated what the aggregate need for capital formation will be in the coming years. We followed that with estimates of what might be obtained, under existing tax laws, from business reserves, from the excess-tax collections of Government, from retained earnings of corporations and from individual savings. From the point of view of taxes in relation to the volume of venture savings the first two of these need cause no concern. The volume of business reserves is not controlled by tax rates. The amount we have assigned to excess-tax collections represents a mere shift from individuals to Government, and then back again, and, granting we are going to maintain a balanced budget and make a moderate regular payment on the public debt, we may assume the amounts we have given are reasonably minimum.

If we deduct these two items from the total of required capital formation, as stated earlier, we get the following amounts:

	Billions of dollars		*Billions of dollars*
1947	26.7	1952	23.9
1948	27.2	1953	24.8
1949	27.8	1954	25.8
1950	28.4	1955	26.8
1951	29.0	1956	27.8

The question which we must answer is, to repeat, how much of this needed capital formation can be provided out of venture savings and will there be enough venture savings for this purpose?

Offhand, it might appear that the proper way to answer this question is to classify all the needed capital formation according to whether it requires venture or nonventure savings, and then to match this classification with the savings of the Nation. But a moment's thought will make it obvious that the question cannot be answered in this way. The economic system does not divide itself into such neat categories insofar as capital formation is concerned.

From the point of view of the managers of business every dollar invested in business is a "venture" and involves risk. The only difference between one dollar and another is in the priority of loss, should the venture prove unsuccessful. Thus, the dollar put in through common stock is less "safe," at least theoretically, than the dollar represented by preferred stock, and so forth, through the whole gamut of possible corporate securities. In other words, the problem of analyzing the need for capital formation in terms of the adequacy of venture savings is purely a question of determining whether the needed capital formation can be converted into instruments which appeal to the holders of savings as suitable for nonventure savings or as suitable only for venture savings. The problem of matching the need for capital formation against the adequacy of venture and nonventure savings, therefore, is not a question of the use to which funds are put; it is a question of the means by which savings find their way into capital formation. When so conceived the problem which confronts us becomes comparatively simple and we have ample statistics upon which to base conclusions.

We may well start with the item of the volume of savings converted into capital formation through institutional investments—savings banks, insurance companies, and so forth. In 1946, about $5,000,000,000 of individual savings were converted into capital formation in this manner. We may assume that this rate will continue, with allowance for the projected increase of production and the national income.

Second, in 1946, individuals made a further contribution of about $4,000,000,000 to capital formation out of their savings by accepting the additional deposits created by bank loans extended to business. We may also assume that this process will be continued with the normal rate of growth.

In both these instances, although the funds received may have been used in most "venturesome" ways, the funds were attracted by means of instruments which are suitable for nonventure savings. Since we assume this volume of funds will continue to be attracted in this way from nonventure savings, we may properly subtract these amounts from the total of capital formation which must be related to venture savings. This reduces the totals to the following:

	Billions of dollars		*Billions of dollars*
1947	17.3	1952	12.7
1948	17.5	1953	13.2
1949	17.7	1954	13.8
1950	18.0	1955	14.3
1951	18.2	1956	14.9

It is now necessary to bring in another factor. During the war business organizations piled up an enormous volume of liquid assets. With the end of hostilities, and an increasing supply of materials for private capital uses, business began to draw down these liquid assets and convert them to capital purposes.

In 1946, this process was carried on to the extent of about $9,000,000,000. This again was a case of business being able to attract private savings for capital purposes through offering the holders of such savings various instruments—Government bonds, for example—which were suitable for nonventure savings.

How long can this process continue? Only for a relatively short time. Because of the rise in the price level and the increased dollar volume of sales, it may be assumed that business will find it necessary to hold twice the volume of liquid assets that it did before the war. This means that, as of the first of 1947, business only had about $30,000,000,000 of such liquid assets that it can safely dispose of. At the rate of $9,000,000,000 a year (the 1946 figure), it follows that this method of attracting nonventure savings would exhaust these liquid assets in less than 4 years. After that business will have to replace this source of funds by attracting direct investments, i. e., by venture savings of individuals or by retained earnings of corporations.

When allowance is made for the amounts of capital formation which will be provided out of nonventure savings through this reduction of liquid assets, we reduce our totals to the following—and this is the amount of capital formation which in the years ahead must be provided from venture savings and retained earnings of corporations:

	Billions of dollars		*Billions of dollars*
1947	8.3	1952	12.7
1948	8.5	1953	13.2
1949	8.7	1954	13.8
1950	18.0	1955	14.3
1951	18.2	1956	14.9

With these totals established, the next question we need to face is whether there will be, under existing tax laws, enough venture savings to meet this need. This, again, is a relatively simple problem.

From two studies made by the Bureau of Labor Statistics (one for 1941 and the other for 1944) on the spending and saving habits of American families, it is evident that, by and large, venture savings come only from those with incomes of $10,000 and above. Individuals with incomes less than this have saving—in the aggregate, comparatively large savings—but they are of the nonventure type.

This means that if we are to have the venture savings necessary to meet the required capital formation they must come, insofar as individual savings are concerned, largely from the savings of those with incomes of $10,000 or more and from the retained earnings of corporations. The volume of such savings will be as follows:

	Billions of dollars		*Billions of dollars*
1947	4.2	1952	5.0
1948	4.4	1953	5.2
1949	4.5	1954	5.4
1950	4.8	1955	5.6
1951	4.9	1956	5.8

All retained earnings of corporations are, by their nature, venture savings. At an earlier point we already have estimated what these retained earnings will beif present taxes are continued. Adding these to the venture savings of individuals as just given results in the following as the total of venture savings which the Nation would have under existing tax laws:

	Billions of dollars		*Billions of dollars*
1947	7.1	1952	4.3
1948	6.4	1953	4.5
1949	6.6	1954	4.7
1950	5.0	1955	4.9
1951	4.3	1956	5.1

By comparing these totals with the volume of capital formation which must be financed out of venture savings, we arrive at a conclusion on the magnitude of the problem which confronts the Nation from the point of view of assuring an adequacy of venture savings. This comparison is as follows:

[In billions of dollars]

	Capital formation to be financed from venture savings	Venture savings under present taxes	Deficiency		Capital formation to be financed from venture savings	Venture savings under present taxes	Deficiency
1947	8.3	7.1	1.2	1952	12.7	4.3	8.4
1948	8.5	6.4	2.1	1953	13.2	4.5	8.7
1949	8.7	6.6	2.1	1954	13.8	4.7	9.1
1950	18.0	5.0	13.0	1955	14.3	4.9	9.4
1951	18.2	4.3	13.9	1956	14.9	5.1	9.8

This completes the second half of the problem of capital formation and savings. The first half, it will be recalled, was a comparison of the necessary capital formation with over-all savings. This second half has carried the analysis to the point of determining whether, regardless of the total, we would have enough venture savings to provide for the continued growth of the Nation and assure "a better tomorrow for everybody."

Putting these two halves together gives the following as the deficiency, first in total savings, and second in venture savings, which would confront the Nation if no changes were made in present tax laws:

[In billions of dollars]

	Deficiency in total savings	Deficiency in venture savings		Deficiency in total savings	Deficiency in venture savings
1947	4.5	1.2	1952	1.6	8.4
1948	5.1	2.1	1953	1.7	8.7
1949	5.1	2.1	1954	1.6	9.1
1950	6.6	13.0	1955	1.6	9.4
1951	7.3	13.9	1956	1.7	9.8

To summarize this table in words, the tax problem as it relates to savings and capital formation is for the next 3 years primarily a question of making possible an adequate over-all volume of savings. After 3 years, or starting in 1950, the major porblem will be one of making possible an adequate volume of venture savings.

One final point needs to be analyzed for the completion of this approach to the tax problem. This is to appraise the effects of various types of taxes on savings and capital formation.

It will be sufficient for the present purpose to consider three general types of taxes: (1) Individual income taxes; (2) excise taxes; and (3) corporation income taxes. In each case the question we must answer is how much of such a tax comes out of money which otherwise would have been spent for consumption and how much comes out of what otherwise would have been saved. Or, to state the question another way: if each of these taxes were reduced by, say $1,000,000,000, how much of the billion will be spent for consumption and how much will be saved, and hence available for capital formation?

First, individual income taxes: Our conclusion here is based upon the two studies, which we previously mentioned, made by the Bureau of Labor Statistics of the spending and saving habits of American families of various income groups. These statistics are much less complete than one might wish, and a substantial amount of interpolation is necessary to convert them to the present purpose. Nonetheless, on the basis of these studies, it is our judgment that:

On incomes below $5,000, the personal income tax dollar represents 80 cents that would otherwise be spent on consumption and 20 cents that would otherwise be saved;

On incomes from $5,000 to $10,000, the tax dollar represents 40 cents of consumption and 60 cents of savings; and

On incomes above $10,000, the tax dollar represents 20 cents of consumption and 80 cents of savings.

In drawing such conclusions it is not our contention that these percentages apply to every person within the indicated income brackets. These are merely general averages for the various groups which, on the basis of the Bureau of Labor Statistics studies, are reasonably accurate and hence provide a basic for appraising the effect upon capital formation of any proposed changes in the individual income tax.

Excise taxes are a different type of problem. Excise taxes are levied on each unit of the taxed item. Thus, in general, they have the effect of increasing the price of the article by the amount of the tax. In order to estimate the effects of excise taxes on spending and saving it is necessary to arrive at a conclusion as to the amount of the taxed articles bought by different income groups. We must then determine what this amounts to on the basis of the distribution of incomes within these groups as between spending and saving.

To make a thorough analysis of this kind would be an enormous statistical undertaking, and we have not attempted it. Rather, we have drawn a conclusion on the basis of various established generalities. This conclusion is that excise taxes as a whole come 75 percent from funds that otherwise would be spent and 25 percent from funds that otherwise would be saved.

Corporation income taxes offer still a third type of complexity. This is because of the question as to what degree, if any, such taxes are passed on to consumers in the form of higher prices.

Looked at from a purely theoretical point of view one would say that no part of such corporation taxes are passed on to consumers. The reasoning leading to this conclusion is that since the price of an article is fixed by the cost of production of the marginal producer, and since the marginal producer does not pay a corporation income tax for the simple reason that he has no income, then clearly the price is no higher than it would be if the more efficient producers did not have to pay a tax on their profits.

That is the theoretical view. It has the support of probably the majority of experts in this field. But it is proper to note that not all competent students of this problem accept this view. Some go to the opposite extreme and maintain that corporation income taxes are virtually all shifted to consumers. They say that if corporation income taxes were removed it would be only a matter of time until the aggregate price of the products of corporations would be reduced by the amount of the tax reduction.

Since this problem does not lend itself to statistical determination, we will not attempt to resolve this controversy. Rather, it seems to us that, for the present purpose, the wise course is to accept the argument that such taxes are, in the final analysis, a burden on corporation profits, rather than assume that they are a hidden tax which is paid by consumers. Such a conclusion necessitates the minimum of tax reduction to provide a given volume of capital formation. In other words, by assuming that corporation income taxes are in reality a burden on corporation profits, we need reduce such taxes only $1,000,000,000 to provide $1,000,000,000 of capital formation (granting the corporation retains the billion rather paying it out in dividends). By comparison, were we to assume that 50 percent of such corporation income taxes are shifted to consumers, we would have to reduce these taxes by $2,000,000,000 in order to realize $1,000,000,000 of capital formation.

By relating these conclusions to what we have explained earlier as to the source of venture savings, we get the following conclusions:

	From spending	From saving	
		Nonventure	Venture
Tax on individual income of below $5,000	80	20	0
$5,000 to $10,000	40	60	0
$10,000 and above	20	0	80
Excise taxes	75	22	3
Corporation income taxes	0	0	100

To interpret this table in terms of savings and capital formation, if taxes were reduced by $1,000,000,000 it would have the following effect upon the volume of nonventure and venture savings:

Increase from $1,000,000,000 tax reduction on saving

[In thousands]

	Nonventure	Venture
Tax on individual income of—		
Below $5,000	$200,000	0
$5,000 to $10,000	600,000	0
$10,000 and above	0	$800,000
Excise taxes	220,000	30,000
Corporation income taxes	0	1,000,000

There is one final point which we feel it is important to emphasize. This is that, although we have been quite specific in giving figures, we do not claim definitive accuracy for our estimates. In such an analysis as this, dealing exclusively with future developments, the best that anyone can do is to use the authoritative data which are available and, on the basis of this, make what appear to be the most reasonable estimates as to the future.

That has been the procedure we have followed throughout this study, and at every point we have attempted to explain fully the assumptions we have made and the reasons for making them. Because of this we are convinced that the conclusions we have drawn are as accurate as today are possible.

We are further convinced that only by such an approach as we have made in this study is it possible to have a sound basis upon which to make those changes in the tax structure which are imperative for the continued prosperity and growing welfare of the people of this Nation. In spite of the obvious risks involved in attempting to make such predictions as we have given, therefore, we urge that Congress carefully weigh the conclusions we have presented, in order that we truly may have " a better tomorrow for everybody."

Mr. BUNTING. Thank you.

The National Association of Manufacturers is delighted to have this opportunity to bring what it can before this committee on economic conditions as we see them, some of the records of past accomplishment, some of the present problems, and some of the future potentialities in our economy.

In view of the fact that the National Association of Manufacturers has, from time to time, been accused of taking certain reactionary positions with relation to matters of public interest, I would like to point out, Mr. Chairman, and gentlemen of the committee, that in the 52 years of service to the American public since the National Association of Manufacturers was organized, its primary purpose has been purely to serve in the public interest of this country, while at the same time attempting to live up to the guiding principles which formed the foundation of its original creation.

I might also explain that if it were not a constructive, forward-looking force, it would not attract and hold to it the type of membership which is represented on its roster.

The National Association of Manufacturers has a present membership of more than 16,000 manufacturing concerns. There are about 40,000 manufacturing firms represented by the NAM through the National Industrial Council, an affiliate. Probably 90 percent of the manufacturing output of the United States is represented by membership in the NAM and NIC. About 85 percent of the industrial employment of the United States is so represented.

I want to point out that in the case of 16,000 member companies of the NAM, about 70 percent of them employ fewer than 500 factory workers and about 50 percent employ fewer than 250 factory workers. There are members of the NAM employing as few as seven factory workers and from that up to several hundred thousand.

In any case, regardless of size of the company, each member company has exactly the same vote in the determination of policies and election of directors. The board of directors of the NAM is composed of 153 men from 39 States. It is truly representative of the country.

In its career, the NAM has pioneered in advocating the establishment of the United States Department of Commerce, in the strengthening of the Interstate Commerce Commission Act, in the building up of the American merchant marine, in the creation of a nonpartisan Tariff Commission, in the establishment of the parcel-post system, in the advocacy of the construction of the Panama Canal.

The NAM worked for the passage of the first State workmen's compensation laws. It worked at an early date for State laws prohibiting child labor in factories.

It is a pioneer in the development of industrial safety methods in manufacturing plants.

It was one of the earliest advocates of the pure food and drug laws of this country.

It was an early advocate of the conservation of forests, timber, and land.

NAM members have pioneered in employee pensions, group life insurance, life insurance, job upgrading, and better physical working conditions in manufacturing plants.

The test of our industrial system, Mr. Chairman and gentlemen, came during two World Wars, and in World War II the NAM served the Government as an organization in attempting to develop industrial employment programs in cooperation with various agencies. The NAM conducted enormous production survey for various Government agencies. It came up with an original list of 18,000 subcontractors for the manufacture of components necessary for war supplies and materials. It later expanded, in connection with Government agencies, the total number of subcontractors participating in war business to the striking total of 143,000 firms.

It made available to various Government agencies Nation-wide data with respect to the availability of warehouses and storage space.

Even before the war ended, gentlemen, the NAM had undertaken studies of causes and possible cures of depressions. It led in the establishment of national postwar conferences, an organization of some 25 religious, trade, national, and labor organizations jointly working on this problem of the economic future of this country.

The NAM officially participated, upon the invitation of the United States State Department, at the San Francisco Conference of the United Nations, where it came in with recommendations with respect to the basic rights of individuals, the registration of treaties, the trusteeship for conquered territories, the rights of individual countries, the outlawing of international cartels, and plans and recommendations for the relief and rehabilitation of devastated nations.

As to its labor policies, the NAM is officially on record as approving the right of employees to join or not to join unions as the individuals choose.

The NAM is officially on record as being in favor of genuine collective bargaining.

It is officially on record as recognizing the right of unions to strike when agreements may not be had on the basic things of wages, hours, and working conditions.

The NAM is officially on record as favoring stabilized employment to the highest possible degree within the control of industrial management.

It is officially on record in support of a program of higher wages based on higher productivity and superior performance, or output; on working conditions that safeguard the health and dignity and self-respect of the employee.

It favors a spirit of cooperation between employee and management.

It is officially on record as favoring a balanced Federal budget, Federal debt reduction, lower taxes for individuals, and tax policies to encourage investment in tools.

That, gentlemen, is the background of those things which I think must be taken into consideration in any analysis of recommendations made by this organization to your honorable committee.

The industrial record of the United States is something of tremendous interest to everybody. I would like to refer to that in just one second.

It took the average worker in 1860, 69 hours of work per week to produce an output valued at $22.77, on the basis of 1944 selling prices.

In 1944, the grandsons and great-grandsons of those workers of the 1860's worked 41 hours per week, a reduction from 69 hours per week by their ancestors and produced an output valued at $59.04 as compared to $22.77 in 1860.

The hours of work were reduced by 40 percent. The individual output per worker was increased by 230 percent and certain fundamental things made that possible.

In 1860, of the total energy used in all activities, mechanical energy, principally direct water wheels, and a few isolated steam plants, furnished 7 percent of the total energy used in production.

Human energy supplied 14 percent.

Animal energy supplied 79 percent.

By 1944, mechanical energy had jumped from 7 percent, in 1860 to 90 percent.

In 1944 human energy had dropped from 14 percent, in 1860, to 4 percent; animal energy had dropped from 79 percent in 1860 to 6 percent in 1944.

Gentlemen, I submit that this record of industrial achievement in this country is a perfect example of the incentive to invent, the incentive to invest, and the teamwork brought about between management and labor in their learning how to use these things, tools and appliances of production, and I think it is important to all of us that there became a tremendously widespread understanding of these basic economic factors between the public, the Government, labor, and management, and, if I may, I would like to start in with a discussion of some of the things which have been problems in this country in recent years and have been the subject of controversy between various groups.

I have over here chart No. 1 which shows the civilian labor force in this country from 1939 through May of 1947.

You will observe here that there were approximately 9,000,000 unemployed at the end of 1939, and that we are now up to where we have as of June, according to the figures just released by the Government, 60,000,000 gainfully employed in this country.

On chart No. 2 we show by parallels for 1939 and 1946 the compensation of employees, dividends paid out by corporations, business savings remaining in the business, net income of farmers and unincorporated small business, and the amount paid in interest, in rent and royalties.

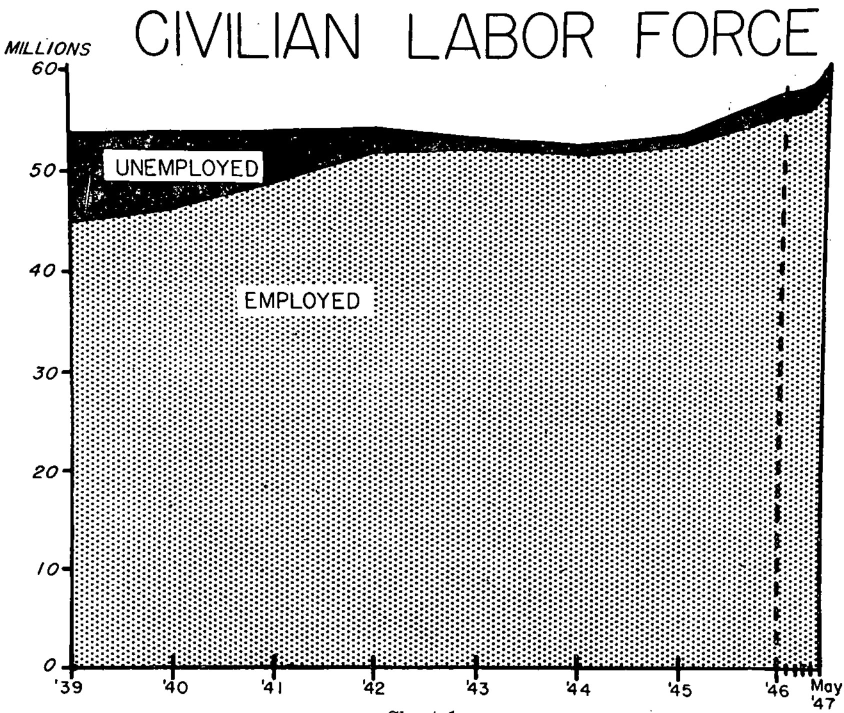

Chart 1

It is interesting to observe that the compensation of employees was 67.9 percent of the total national income in 1939, according to the United States Department of Commerce figures, and it was 66.5 percent of the national income in 1946.

The biggest bulge in this whole picture was the income of farmers and operators of unincorporated small businesses. They got 15.8 percent of the national income in 1939, and 18.2 in 1946.

Dividends paid in 1939 accounted for 5.4 percent of the national income. Dividends last year were 3.1 percent of the national income.

Business savings in 1939 amounted to 0.6 percent, and the 1946 business savings amounted to 4.2 percent, a subject which I will get into in just a few moments.

This, gentlemen, is the answer to that craziest of philosophies, which originated shortly after the depression in 1929—the theory of economic maturity.

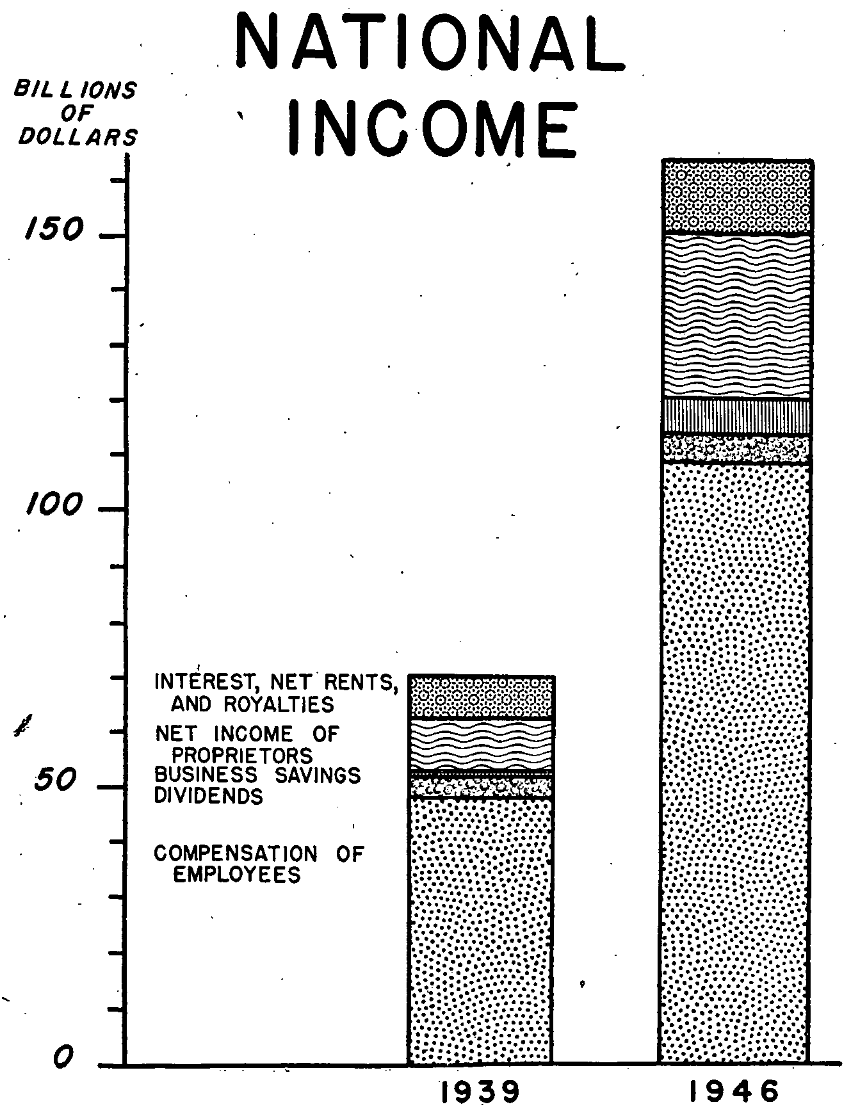
NATIONAL
INCOME
BILLIONS
OF
DOLLARS
150
100
50
0
INTEREST, NET RENTS,
AND ROYALTIES
NET INCOME OF
PROPRIETORS
BUSINESS SAVINGS
DIVIDENDS
COMPENSATION OF
EMPLOYEES
1939
1946

Chart 2

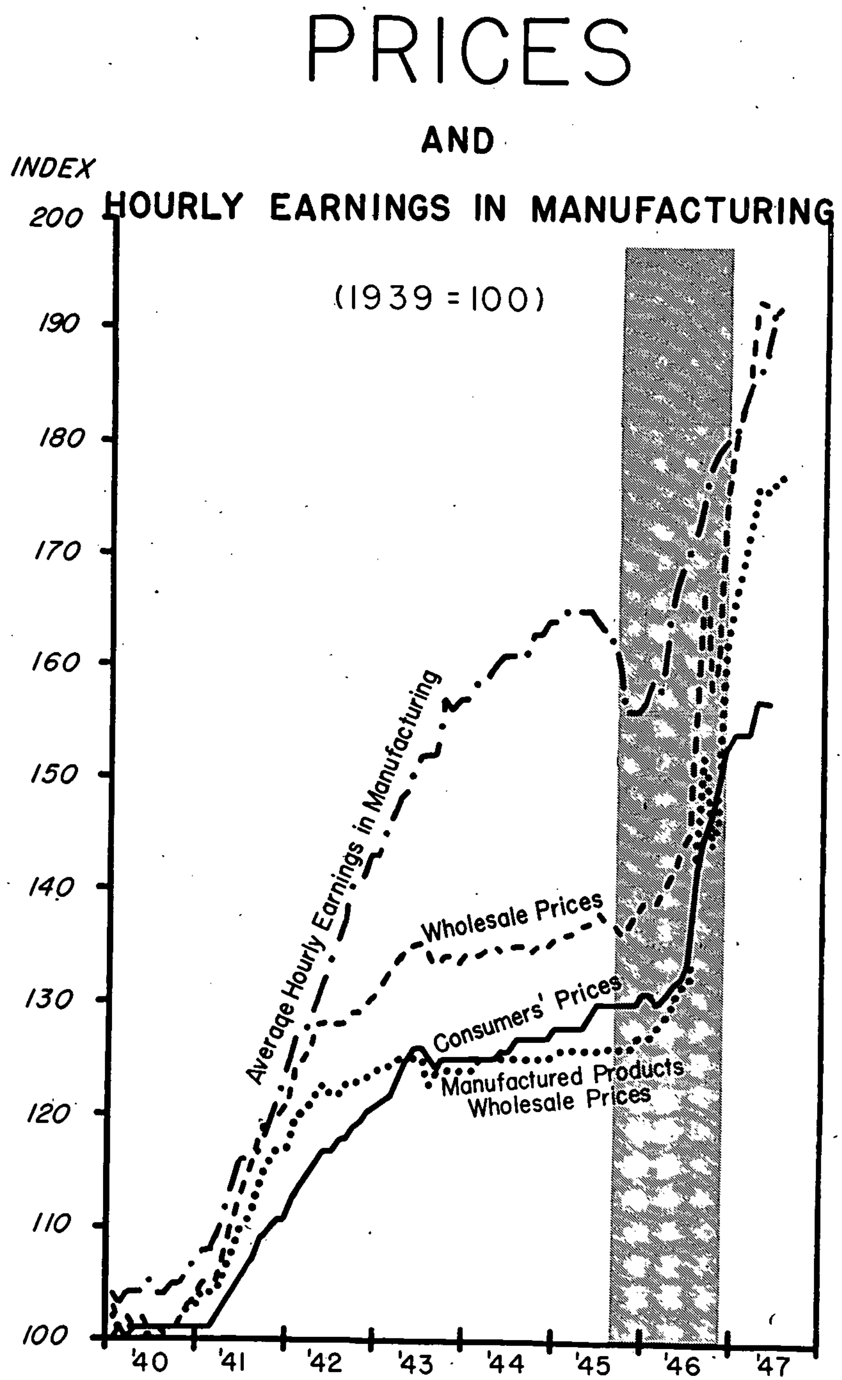
PRICES
AND
HOURLY EARNINGS IN MANUFACTURING
(1939 = 100)
INDEX
200
190
180
170
160
150
140
130
120
110
100
Average Hourly Earnings in Manufacturing
Wholesale Prices
Consumers' Prices
Manufactured Products Wholesale Prices
'40
'41
'42
'43
'44
'45
'46
'47

Chart 3

Chart No. 3 shows how wages, the cost of living, wholesale prices of manufactured products, and wholesale prices as a whole have changed in the period from January 1, 1940, to date.

The red strip indicates the period between the end of the war with Japan and the end of OPA controls last November 9.

It was during that period that we made a major part of the necessary postwar price adjustments which every businessman and every economist in this country knew we would ultimately be required to go through. That is when these big changes came. I have something to say about it a little further along here.

In chart No. 4 we show the relationship between profit and wages in manufacturing.

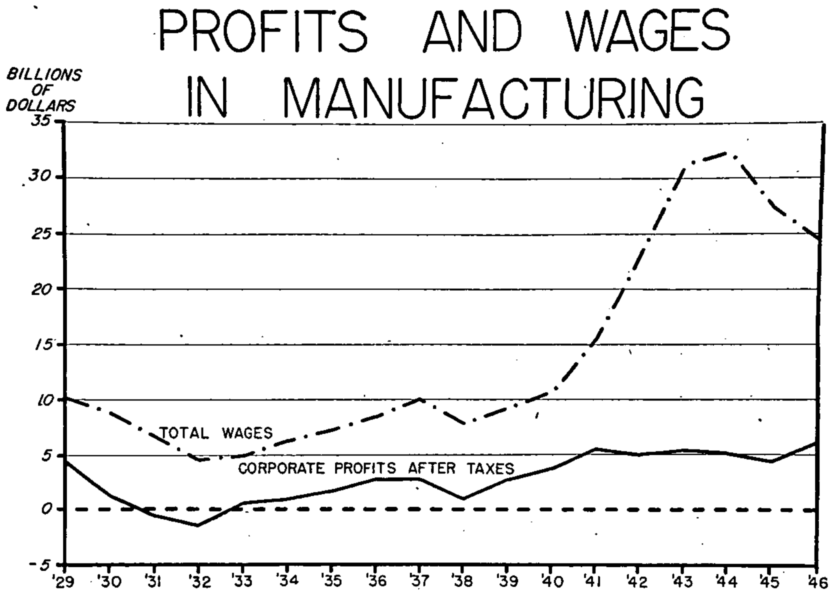

Chart 4

This is the total wages in dollars paid by manufacturing plants in the United States for the years from 1929 going down through the depression and coming back up through the slow recovery period, then the war impact and up through 1946.

Total dollars of wages in manufacturing rose during this period from somewhere around $8,000,000,000—the exact figure is in this mimeographed brief of ours—to something over $30,000,000,000 at the war peak in manufacturing, and in 1946 amounted to about $25,000,000,000.

In that same period of time we had this corporate earnings record—an almost straight line there since 1941.

Incidentally, 1941, as is shown on another chart, in a moment, was a bigger year of earnings than 1946.

On chart No. 5 this same information in terms of profit margins and hourly earnings in manufacturing period from 1929 through 1946.

Here is the average hourly wages of workers in manufacturing plants through that whole period from 1929 through 1946, and here is the profit margin in percentage on sales.

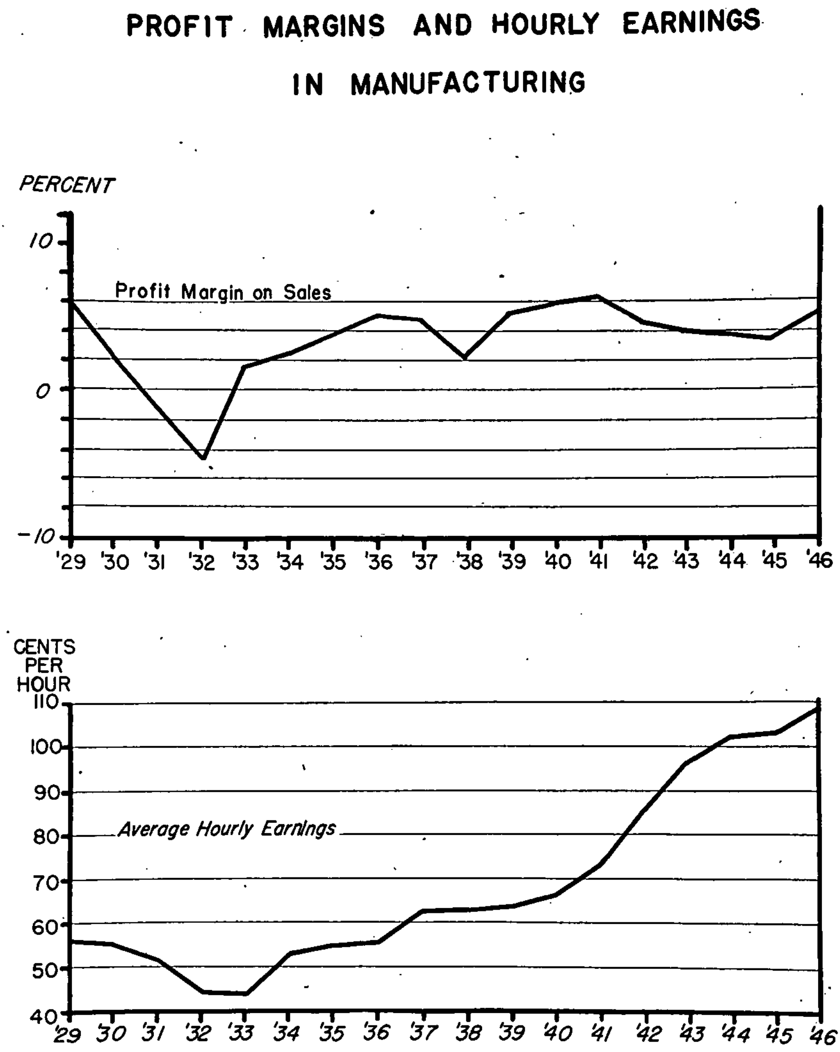

Chart 5

This scale here is in cents per hour. This scale is the profit margin. In other words, of every dollar spent by anybody for anything, this is the part that was represented by manufacturers' net profit.

The highest point that we have reached since 1929 was in 1941 and we have not reached that point subsequently.

Chart No. 6 shows the historical record of this country insofar as that portion of its total national productivity which was reinvested each year in capital formation.

You will observe there in the decades 1869 to 1878, 1879 to 1888, 1889 to 1898, 1898 to 1908, 1909 to 1918, and to 1928 we used approximately one-fifth of our total national product for capital formation.

I am coming back to that chart in a moment.

Chart No. 7, you will note, only goes back to 1928. It shows, in relation to the total national product in each of the years from 1929 to

PERCENT OF GROSS NATIONAL PRODUCT DEVOTED TO CAPITAL FORMATION

(BY DECADES)

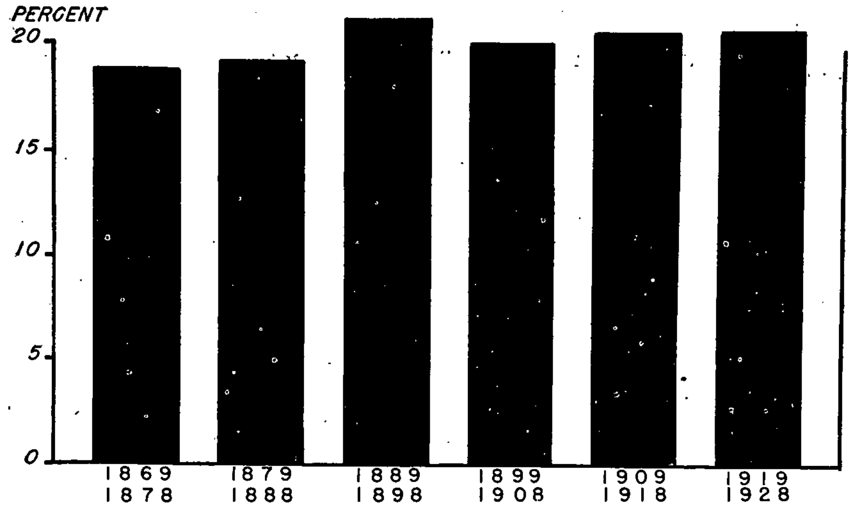

Chart 6

CAPITAL FORMATION

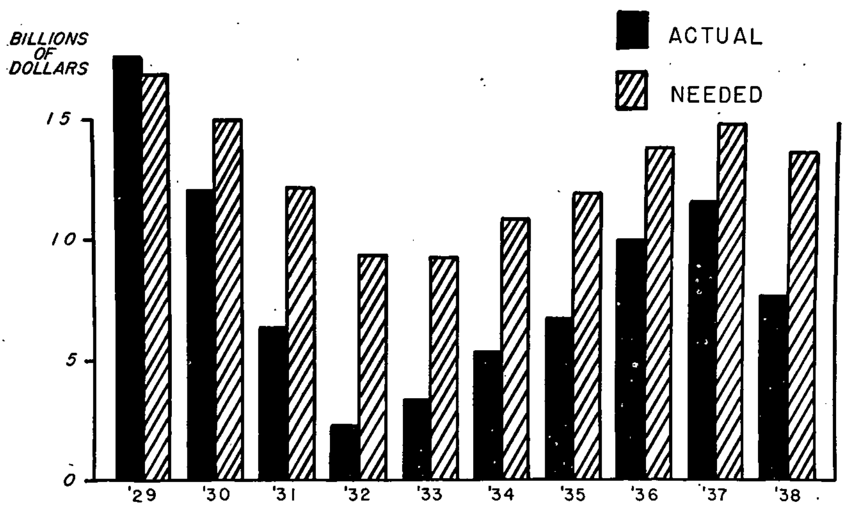

Chart 7

1938, what would have been required at the historic rate in relation to the national product and the black bars the amount we actually devoted to capital formation.

The CHAIRMAN (interposing). You mean the cross bars?

Mr. BUNTING. The cross bars is what we needed to spend.

The CHAIRMAN. That is about 20 percent.

Mr. BUNTING. Yes, sir. That is the same figure, and the black is what we actually spent.

The CHAIRMAN. I see.

Mr. BUNTING. There is the effect of the continuation of the fear philosophy and the many other things which happened in this country through this decade, when we did not put back into capital formation the historical ratio of 1889 to 1928.

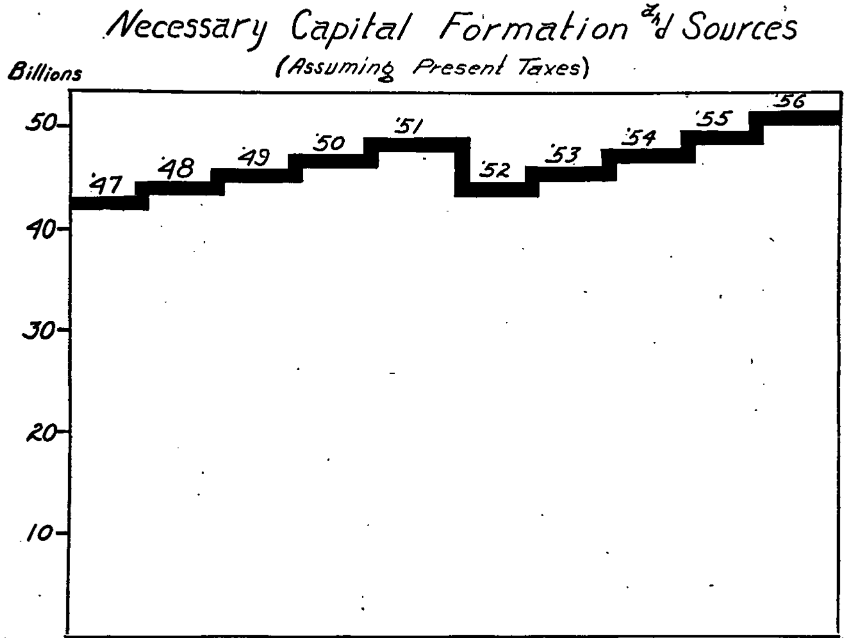

Chart 8

We failed to do that during that period and we paid the penalty for it.

Now, over a long period of time we have had a growth in our national economy to the extent of approximately 3.8 percent per year compounded.

So, that if we start with an index of 1, at the next year we have 103.8 plus 3.8.

The CHAIRMAN. What are you talking about?

Mr. BUNTING. The record of our growth in the United States.

The CHAIRMAN. National productivity?

Mr. BUNTING. National productivity. We have taken approximately one-fifth of that amount and reinvested it in capital formation to provide for a continuing successively higher plateau of continuing investment.

Now that is well set up on this next chart (chart 8). If we are to do this job which is ahead of us during the next decade, starting in this year, in 1947, then we will be required to put into capital formation this year approximately $42,000,000,000, with each succeeding year increased by 3.8 percent.

Our deficiency in capital formation in the United States in the decade 1937–46 amounted to a total of $125,000,000,000.

We cannot possibly expect to make up for that deficiency by an investment at this late date. So, let's cut it in two, or to $62,000,000,000. We still could not make that type of investment all at once, so let's cut our total in two again, and assume that the remaining total of $30,000,000,000 is spread over 1947, 1948, 1949, 1950, and 1951 to the extent of $6,000,000,000 a year.

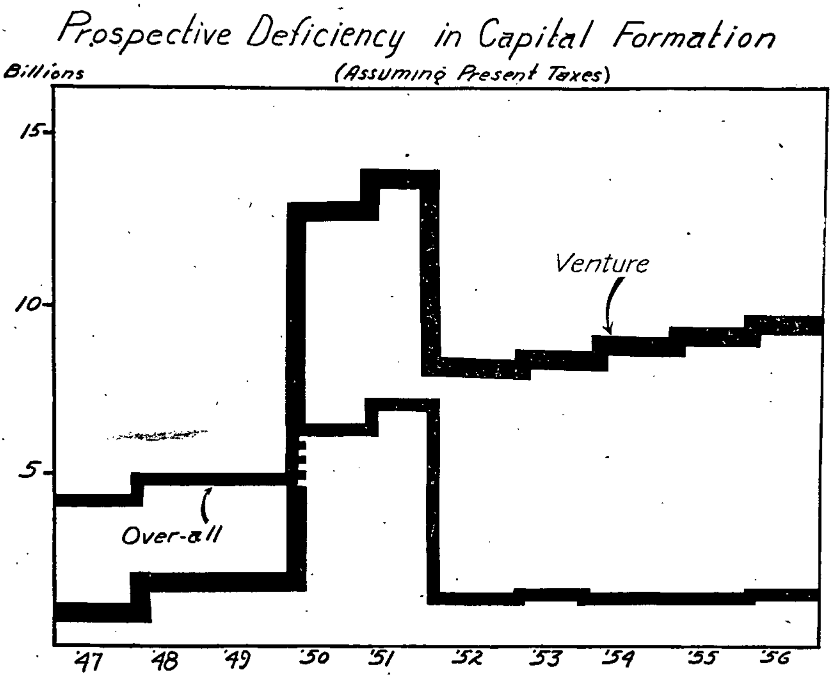

Chart 9

That is why there is a drop in this chart of $6,000,000,000 between 1952 and 1953.

The CHAIRMAN. That dropped?

Mr. BUNTING. That is just because we will, theoretically, at least, have made up to that $30,000,000,000.

The CHAIRMAN. It does not indicate a depression?

Mr. BUNTING. No, sir. We are not predicting any depression except on one issue, and I will come back to that.

Now, assuming a present taxation level in this country, gentlemen, if we take all of the money that we have in sight—all the money which individuals can put up, all the money which corporations will be permitted to retain out of their reserves for depreciation and replacement and obsolescence and all the rest of it—we are going to have to face the deficiency of capital as shown by the light black line on chart 9.

And beginning in 1950, we will be faced with the necessity of finding a way to get this volume of capital, as shown by the heavy black line, out of our venture savings—the money which people can afford to risk in new industries.

I do not know how many of you gentlemen realize that from the time the first automobile turned the first wheel on the first street in America, more than 1,200 companies were formed to build passenger automobiles. A lot of them were ill-timed, ill-advised, ignorant attempts to get into a new industry by people who had more enthusiasm than other qualifications. A lot of those companies thought that they would benefit themselves by the process of merger with some others. There is no question but what the investing public lost a lot of money in the investment which went into those 1,200 new automobile manufacturing ventures formed in this country.

Senator WATKINS. How many do we have today?

Mr. BUNTING. About nine, I think. There is likewise no questioning the fact that the introduction of the automobile was a distinct economic gain to America and all the world—and I am not in the automobile business.

Now what have we got to do if we carry out the historical program and pattern of the past? It is to devise a system whereby the necessary venture capital can be made available.

We have a 3-year period in which we assume that the corporations of this country, out of their liquid assets, will invest every cent of that of their own voluntary free will in the next 3 years, and if they do, it will allow a sum of $30,000,000,000 which they have remaining in their savings accounts.

Then we come into the next 2-year period where we are going to have tremendous deficiencies.

The CHAIRMAN. Mr. Bunting, I do not understand the chart. It is a prospective deficiency?

Mr. BUNTING. A prospective deficiency.

The CHAIRMAN. That is what?

Mr. BUNTING. Mr. Chairman, it is the difference between what we have got to have if we carry the historical pattern through and what we will have available from all sources if we do not do something about the present taxation structure, which will make it possible for venture capital to go into investments.

The CHAIRMAN. The difference between what and what?

Mr. BUNTING. The total amount available for investment as venture capital and what we ought to have to do the job, and it runs roughly around $7,000,000,000 or $8,000,000,000 a year average.

The CHAIRMAN. You start from an assumed amount of savings?

Mr. BUNTING. No, we start from the job that we did historically from 1869 to 1928 with 3.8 percent compounded each year.

The CHAIRMAN. I thought that had to do with the gross national product?

Mr. BUNTING. It was all part of the gross national product that went into capital formation.

The source of this information is the National Bureau of Economic Research.

The CHAIRMAN. How do you assume there is going to be a deficiency?

Mr. BUNTING. Unless we revise our contribution to the Federal Government and reduce our income taxes on the individual, there will not be money available to do this job.

The CHAIRMAN. That may be so, but I do not see any proof of it.

Mr. BUNTING. Perhaps Dr. Robey may be able to shed some additional light on the subject.

The CHAIRMAN. I will be glad to have him do so.

STATEMENT OF DR. RALPH W. ROBEY, CHIEF ECONOMIST, NATIONAL ASSOCIATION OF MANUFACTURERS, WASHINGTON, D. C.

Dr. ROBEY. Mr. Chairman, what we did was take the amount of capital which we think we need in the coming year, based on the present gross national product and the historical percentage.

The CHAIRMAN. Between $40,000,000,000 and $50,000,000,000 a year, which you show on the other chart?

Dr. ROBEY. Yes. We add together how much we have in the way of business reserves, how much we can anticipate from the excess of Government tax collections over what it spends for goods and services, how much can we get from retained corporation earnings and finally, what will be available as individual savings under the present tax law. Add those together and subtract the total from the estimated amount of needed capital formation, and we get that much difference there.

So, what this amounts to is: How much do we see in sight in the way of savings out of which that capital formation must come, and we find there is this deficiency on the part of savings to provide the necessary capital formation.

Now this venture savings figure involves one complication. On the basis of two studies made by the Bureau of Labor Statistics of the spending and saving habits of the American people at different income groups, it is found that most venture capital comes from those with incomes above $10,000. That means if we are to have the type of venture capital that goes into business, there has to be a sufficient reduction of income tax to permit the larger volume of savings. Otherwise, we will not get the capital formation. In fact, there are only two major sources of venture savings. One is retained earnings of business. The other is savings from the incomes largely above $10,000.

When we compare that with what is needed we get this great deficiency.

The great hump in 1950 and 1951 is because the liquid assets of business which were accumulated during the war will be exhausted.

Last year business pulled down its liquid assets by $9,000,000,000. We assume they will continue to pull them down at approximately that rate. As Mr. Bunting has said, they have left approximately $30,000,000,000. When that $30,000,000,000 is gone—that source of venture capital is gone—and if business is going to continue to expand, it must get it from certain areas of individual income.

The CHAIRMAN. It occurs to me strange all the new capital going into housing comes from people with incomes under $10,000. That would be one exception to your general statement?

Dr. ROBEY. We do not consider that as venture capital, unless the building is for business purposes.

The CHAIRMAN. You would have to include all housing?

Dr. ROBEY. In the total capital formation; yes.

The CHAIRMAN. What do you figure? I do not quite see why it is not venture capital, but never mind. But why do you divide venture capital and other capital?

Roughly speaking, of your total capital formation of $40,000,000,000, how much is venture and how much is the other type?

Dr. ROBEY. The difference between venture capital and nonventure capital as it relates to savings depends upon the type of inducement the user of the funds can offer.

Last year many American business corporations had Government bonds. They sold those Government bonds to persons who considered such bonds as being a risk-free investment, but business used the proceeds for venture purposes.

The CHAIRMAN. I am just asking how you divide the $40,000,000,000 or $50,000,000,000 gross capital formation between venture capital and other type of capital.

Dr. ROBEY. Under normal circumstances, the construction industry, as a whole, my recollection is, makes up about 50 percent of the total capital formation of the country. It is a very large item.

We assume that every investment in business is venture capital. In the study by the Bureau of Labor Statistics, they do not distinguish between a bond and common stock of corporations. They distinguish between investments in business on the one side and life insurance, Government bonds, and savings banks on the other. We call all investments in business venture capital, even though it may be triple A bonds.

The CHAIRMAN. It does not seem to be a very good division when you come to the question of how to get it.

There does not seem to be a very sound division between the two.

Mr. BUNTING. I might refer the committee to page 22 in this report where this is explained in a great deal more detail. The charts are only prepared to illustrate the actual basis for this report itself.

Now the thing we wish to point out primarily, gentlemen, is that venture capital in the strictest definition of the term cannot come from insurance companies. It cannot come from savings banks and it cannot come from commercial banks because they are not in the business of providing venture money necessary to start an expanding business enterprise.

I would also like to summarize all our recommendations here, Mr. Chairman, if I could, and that is covered on pages 23 and 24 in this report.

In my judgment, there is much reason today for the people of this Nation to look forward to the future with confidence. Production is steadily rising and, equally important, it is becoming better and better balanced. Total wage payments have held up amazingly well in our reconversion from war to civilian production. Prices are high, as compared to prewar, but the increase has been less than the rise of wages; and during the past 4 months the price level has definitely flattened out. We yet have to see the full effects on prices of the current round of wage increases. But if we can keep production and productive efficiency moving forward, we should be able to hold this potential price rise from getting out of hand.

For the general situation to be this favorable only 2 years after the end of the war, should be a source of real pride to the American people. But it would be a serious error to assume that we are now in a position to rest on our oars. Two major problems confront us and they must be solved if the Nation is to continue to move forward.

The first of these problems is to make the necessary changes in our tax laws to provide the capital formation essential to the continued growth of production and the provision of jobs for our growing labor force. This is a problem which must be solved by the Congress.

The other problem is for all of us to forget our selfish group interests and, in a spirit of genuine unity, put our shoulders to the wheel.

By "unity" I mean, not only teamwork in the productive activities of our Nation, but unity of understanding of what has made America great; of what is needed to perpetuate this greatness; of what real, wholehearted teamwork means to the future of every worker in this land, the future of our Nation—indeed, the future of the whole world—for only a strong, united America can insure peace in the years to come.

That is why we have approached this presentation with a full recognition of the tremendous import of the problems with which you are dealing. We have confidence that you share this recognition and that you will provide the leadership that will carry the American people safely through the turbulent times that lie ahead of us.

In closing my presentation, Mr. Chairman, I would say that if there are any ways in which any of the members of our staff may be allowed to provide any additional information upon this important subject, requested by this committee or by other congressional committees, we would deem it a tremendous service to the public to be allowed to cooperate with you.

Thank you very much.

The CHAIRMAN. Mr. Bunting, yesterday we had testimony which indicated, or took the position rather, that the question of maintaining capital formation at a fairly equal rate was the key to the whole problem of preventing a depression, not so much the amount but the stability.

Mr. BUNTING. That is right.

The CHAIRMAN. What sort of Federal action can be taken to insure such stability—you are familiar with the ups and downs of the whole economic history of construction, for instance. Also in the willingness of corporations to reinvest.

Have you any suggestions as to Government policy on maintaining some stability of capital formation?

Mr. BUNTING. No. I think you have got to have incentive to venture. That has to be provided. First with high taxes, high to the point of oppression, there is not too much incentive on the part of investors, and there is not an adequate availability of cash.

Now I think the maximum amount of Government economy is the No. 1 item on the list, then such reduction in personal income tax as may be made so that venture capital may be encouraged to invest itself in these enterprises.

Now we have a lot of people in this country who are talking depression, who are talking about business recession of some kind. Somewhere ahead of us there may such a depression, and I will tell you the fastest and surest way to bring that on is for this country to fail to have the necessary capital formation. Everything which can encourage capital formation on the historical basis of the past will assure at least a long delay before any serious readjustment period sets in.

This matter of building is a tremendous item because the construction industry covers, and has, historically, such a very high percentage of the total wealth of the Nation.

There have been many things that have contributed to the present condition in the field. If industry and if labor, if management and labor and capital, can be encouraged to live in an environment of mutual trust and confidence, many of the things that are contributing, at the present time, to what people consider excessive cost of building can be taken out of the picture. It is going to take time, determination, and hard work between all three groups of people.

The Chairman. Have you any figures on savings on incomes over $10,000 and incomes under $10,000?

Mr. Bunting. I think that is included in our report or supplement attached to this.

I will ask Dr. Robey to give us the page number on that.

Dr. Robey. On page 16 of the appendix, Senator Taft, you will find the estimated amount of venture savings for the coming years.

The Chairman. I wonder where you got the figures?

I just wonder whether you are not going to have to look to savings in the future regardless of the income tax, taking a realistic view of what the income tax will remain, and you are going to have to look to incomes under $10,000.

Certainly there are substantial savings in this field, insurance policies and so forth, apart from direct savings in banks. In the purchase of a house over a period of 10 or 15 years, every capital payment is a savings every year during those 15 years.

Do you not rather underestimate the importance of encouraging savings in the lower incomes, under $10,000?

Mr. Bunting. When we get into the field of venture capital, Mr. Chairman, we are excluded from the types of savings which are made by people in the lower-income groups. The type of savings which are made in savings banks, the insurance companies, and other fields are not the source of capital formation required to be used for venture purposes in competitive companies of various types and manufacturing concerns.

The Chairman. I am trying to get some idea how much risk money must be put into this $40,000,000,000 or $50,000,000,000 a year, and how much would the insurance companies put in and the savings banks put in.

Dr. Robey. On page 13 of the appendix, at the top, there is an estimate of the total volume of savings in the years ahead and it runs from $19,000,000,000 this year up to $26,800,000,000 in 1956, and the table which I just referred to on page 16 is the proportion of that which we estimate will be saved by those with incomes over $10,000, which runs from $4,000,000,000 to $6,000,000,000.

So, the overwhelming majority of aggregate savings comes from those below $10,000 according to our study.

The CHAIRMAN. That is what I thought.

Dr. ROBEY. We would like to be able to distinguish between the bond purchasers and the stock purchasers in business, but unfortunately the Bureau of Labor Statistics figures, which are the only figures we have, do not make that distinction, and therefore we had to take that total lump. It is a comparable figure on savings and the type of investments made. We would like more detail if we had it.

In 1946, the institutional investors of the country, savings banks and so on, invested about $5,000,000,000 in American business. Commercial banks contributed $4,000,000,000.

We have assumed this contribution will be continued over the years, at the 3.8 percent rate of progress which we have mentioned. We have allowed for all of that in arriving at our final figure.

We have also allowed for a fairly substantial amount in business reserves accumulating over the years and for a change in the price level which is involved in the purchase of new supplies.

The CHAIRMAN. Recognizing the need for some venture capital we are still concerned to know how we can eliminate the ups and downs in capital formation.

Mr. BUNTING. That is right.

The CHAIRMAN. Almost more than what the volume should be. I suppose we could adjust ourselves to a somewhat smaller capital formation percentage if it were the same every year.

I don't know what is necessary.

Mr. BUNTING. Our theory is, Mr. Chairman, that unless we continue this expansion we are very likely to run back to a decade like the 1930's when investments were so precarious. If we do not continue to progress we will never pay off the $258,000,000,000 national debt. Naturally that is going to require——

The CHAIRMAN (interposing). I do not think we are going to pay it off anyway.

Mr. BUNTING. I hope we do.

The CHAIRMAN. I do not see that we need to pay it all off.

We are very much obliged to have these studies on capital formation. They are very interesting to the committee, and if you have any further studies from time to time we would be glad to have them.

Mr. BUNTING. That is fine.

The CHAIRMAN. Particularly on this question of stability of capital and what to do about it.

Mr. BUNTING. We will be glad to furnish anything we have, Mr. Chairman.

STATEMENT OF GEN. R. E. WOOD, CHAIRMAN OF THE BOARD, SEARS, ROEBUCK & CO.

General WOOD. Mr. Chairman and gentlemen, I am not an economist, analyst, or banker, but the company of which I am the chairman of the board distributes consumers' goods of every character, except food and automobiles, in every State of the Union. The company sells through the catalog to the farms, smaller towns, and cities, sells through some 600 stores to the larger cities and towns.

An officer of our company has an unequaled opportunity to view the whole panorama of industry, both of production and of distribution. We can tell when the pace of industry slackens or accelerates.

Looking back to VJ-day, pretty nearly every economic prophecy, whether from Government or private sources, has proved wrong. We were told by Government and labor sources shortly after VJ-day that by November 1945 we would have 5,000,000 unemployed; by March 1946, 7,000,000 to 9,000,000 unemployed. For 2 years we have had practically no unemployment except voluntary unemployment, and now for the first time in history we have 60,000,000 people at work.

In the summer of 1946 we were warned by private sources that a serious business recession was impending, probably beginning in the late fall of 1946, certainly by spring of 1947—now postponed until the fall of 1947.

I have never believed that any depression was in store for us in 1947, and I doubt whether it will come in 1948. Apparently the majority of our economic prophets had overlooked one vital fact, the position of agriculture, our basic industry.

In World War I the farmers of the country put their profits in high-priced land, found themselves at the close of that war loaded with debt, with falling prices, and a lack of markets. At the close of World War II the farmers of the country have the highest income in their history, have reserves in cash and Government bonds of over $22,000,000,000, have vastly superior tools and equipment, and have a mortgage debt of approximately half of what it was 15 years ago. Their present purchasing power is very high and there are no signs of reduction this year. The initial purchasing power comes from the products of the soil.

There has been a great deal written about the decline of productivity in industry in the past 2 years. This is certainly not true of agriculture, where with greatly improved tools and machinery plus hard work productivity has greatly increased.

When and if we cease to feed Europe, farm prices will decline, but they should not decline to anything like the extent they did in 1920. Our population in that year was 106,000,000; with the present rate of growth, our population in 1950 should be 147,000,000. Our land area is the same as in 1920. There has not been any great increase in cultivated acreage and there are approximately 40,000,000 more people in this country to feed.

All of our population is consuming more food per capita than it did 25 years ago. Within 5 years, it is doubtful whether there will be any farm problem in the sense of large crop surpluses. While farm prices may decline with a large drop in exportations of food, there should still be a comfortable income for the farmers of the country.

World War II showed the immense superiority of our tools, machines, and equipment over the rest of the world. It is these tools and machines that enable us to out-produce every other country in the world, to pay high wages, and to maintain our people on a high standard of living. If our system of taxation permits sufficient savings by individuals and corporations to continue the acquisition of more and better tools and equipment, there is no reason why our standard of living should not continue to rise. It should be added that

American ownership and management should adhere to present American practice and should continue to plow back a substantial portion of their earnings into improved tools and equipment.

English capital made the mistake of paying out an excessive amount of earnings in dividends, resulting in general obsolescence of English industry.

The greatest fallacy enunciated during the New Deal was that there were no more opportunities in the United States, that this was a finished country, that it was static. Our country is still a young country; it will require all the capital we can save in the next 10 years to provide the facilities for our growing population and the needs of the vast undeveloped portions of our country.

With ample capital, with the ablest industrial management in the world, with the best plants in the world, tools, machines, and equipment, and with the smartest and most intelligent labor force in the world, there is no reason why we cannot progress for the next few years if our Government and our system of taxation is intelligent and if there is a reasonable degree of cooperation between capital and labor.

Too much has been made out of price maladjustments. There are price maladjustments but most of them will be readjusted within the next 2 years—line by line. These adjustments may cause temporary loss of profits to the owner, temporary unemployment to the workers, but they will not come altogether; so their effect will not be great on the general economy. Their long-term effects should be beneficial and tend to postpone a depression rather than cause one.

There is one serious cancer in our economy and that is the building construction industry. Building costs have risen all out of proportion to other costs. High wages can be paid when improved tools and machines enable the worker to produce more. In this particular industry, there has been little improvement in tools, there has been a very great advance in wages, an actual decline in production, with a resulting great increase in costs. The greater part of the increase is in labor costs and in the practices of the building trades-unions. I should add, that this is not true of the majority of other unions. In any case, the chief sufferer is the worker himself and his family. I believe a congressional investigation of this industry, to get at the true facts, would serve a useful purpose. If we can get the costs of building construction down, we have billions of dollars of work assured for the next 5 years and the problem of housing our people can be solved.

I do not touch on the foreign situation except to say that I believe the importance of the effects of our foreign trade on our domestic economy are very much exaggerated. At the present rate, our excess of exports over imports is around $8,000,000,000. If these exports were out materially, our economy should not crumble.

A distinction should be made between the loans to the young, growing countries of South and Central America and Canada, which loans if properly applied, will result in material benefit to those countries and to the United States, and loans to the countries of western Europe, where no amount of money can restore the economic conditions that formerly prevailed and where the loans cannot be repaid.

I am aware of the uncertainties of the foreign situation, but I believe that nothing can stop the progress of this Nation.

The CHAIRMAN. General Wood, what is your opinion of the present price situation we have everywhere and the complaints about higher prices? What is your general view of whether these prices are abnormal today, and if so, whether anything should be done to break them down.

You do not handle food, but that is the greatest complaint. There are also complaints in other fields.

General WOOD. In our catalog we keep an index just like the Labor Department does, and our fall catalog, which has just come out, for the first time in 6 years shows some reduction in prices, not much, but some.

The CHAIRMAN. Your present catalog just came out and shows a reduction over the last catalog?

General WOOD. The last catalog.

The CHAIRMAN. When was that?

General WOOD. The spring catalog which goes out in January and February.

That is the first time in 7 years it has turned down. It has not turned down much.

From the standpoint of the worker, his big items are food, clothing, and rent. You cannot get much reduction in food prices until you begin to let up on feeding Europe.

You cannot get much reduction in rent until we get a tremendous amount of new construction and that is, I think, the most serious bottleneck, because your building costs are terrific and the poor man cannot afford to pay the price for a new house.

The CHAIRMAN. You handle building materials?

General WOOD. We handle building materials, but we do not build houses.

The CHAIRMAN. I understood that you sell prefabricated houses?

General WOOD. Not now.

The CHAIRMAN. Not now?

General WOOD. We got badly burned.

The CHAIRMAN. What is your view about prices of building material? Are they abnormally high?

General WOOD. I think they are high. I think they are going to come down. Lumber has dropped some, but the biggest elements in building cost are the labor costs and they are terrific, because we are not getting the productivity.

We have built a number of stores in the last 18 months and their cost averaged just double of what they were in the 20's and 30's.

The CHAIRMAN. You do handle clothing?

General WOOD. Oh, yes.

The CHAIRMAN. Has the price of clothing come down?

General WOOD. A little bit, but the prices will come down more.

The CHAIRMAN. You are inclined to think the slight reduction made this time may be greater next time?

General WOOD. I think so, because as your supply catches up with your demand competition is started—the merchants for 7 years have been able to sell anything. I mean the demand was greater than the supply and all you had to do was to put the goods out on the shelf and merchants sold them at any price they put on them. Now, as demand catches up, the merchant is going to cut his price, give better quality, and better goods before the country will take his goods.

The CHAIRMAN. Do Sears' prices have much effect on retail sale prices?

General WOOD. The catalog is the price guide for the rural districts and small towns. It has not much effect in the big cities because we do not distribute catalogs there.

The CHAIRMAN. Your general view as to all prices, these things, outside of food and rent——

General WOOD (interposing). I think the turn has been reached and I think you will see a progressive decline. I do not think it will be a great decline, and I do not think we can ever get back to the price levels of 1939.

The CHAIRMAN. I assume the whole level will be up 50 percent, probably, wages, and prices, if not more.

General WOOD. One trouble has been, and that is very specific, with the maladjustment of prices.

We have an index of the various lines in our catalog. Generally speaking, what we call hard lines—hardware and metal products—show an average increase of 60 percent, but garments show an increase of 130 percent. And it was in garments that the price break occurred last fall, I mean women's clothing and to a certain extent men's clothing, but principally in women's clothing, the prices had gone out of all proportion. A rich woman balked at paying $5,000 for a $2,00 fur coat and the poor woman balked at paying $25 for a $10 dress, and the garment industry was hurt and prices have been materially reduced, particularly in women's wear.

The CHAIRMAN. Have you any suggestion as to anything the Government can do? Suppose we start in what looks like a depression. Is there any suggestion as to Government policies?

General WOOD. I think one of the greatest things is this tax policy. I realize, of course, you have got to have much higher taxes in the future than you did prewar. On the other hand, I think there is a mean in between. I think the previous speaker brought it out, that you have to allow enough savings by corporations and individuals to keep getting better plant. The great superiority of our system is tools and machines. As you go around the world, and I had the privilege of twice going around in the Air Corps, you get a chance to see how far ahead of every other country we are.

It is tools and machines that enable us to pay the wages.

I think it was Mr. Lewis who testified before some committee in Congress that the American miner is paid three times the amount the English miner is paid, but he produces six times as much a day. That is due to machines. It is true in every manufacturing industry and it is true in agriculture. No one realizes what has happened in agriculture today, the number of tools and devices has increased the productivity of the farmer enormously. That is why his labor force has been cut by 25 percent and he is producing roughly 25 percent more than he did before the war.

It is those tools that enable us to produce, and to continue this production you have got to have capital and savings to buy the tools. And then as you go over this country we have proof that the idea that this is a finished country is absurd.

There are enormous amounts of capital required for the development of the South, Southwest, Rocky Mountain States, and the Pacific Coast States.

The CHAIRMAN. I notice from your statement you think the increase in population in the United States over 1920 will soon get to a point where there is very little danger of agricultural surpluses.

General WOOD. I think the farm problem may be off of Congress' hands forever in 5 years.

The CHAIRMAN. We could not consume a permanent wheat crop of that size.

General WOOD. That is true.

The CHAIRMAN. You would have to ship it?

General WOOD. Wheat, after all, is not a tremendous element. Wheat today will not amount to over 4 or 5 percent of the total value of agricultural income, and you could transfer the wheatland to something else.

The CHAIRMAN. In other words, the amount of exports would be somewhat reduced if we did not have an agricultural surplus?

General WOOD. I am a midwesterner. Possibly I look on it with that view, with a view opposed to that of people in New York, Boston, and Philadelphia, who think if our export trade goes to pot we are ruined. I, of course, realize we have to have exports and we will have exports, but I do not think we need maintain them at $16,000,000,000 a year at the price of giving the money away to buy the exports. That is what we are doing.

I do not think the country's economy would crumble if those exports were cut say $3,000,000,000 or $4,000,000,000.

The CHAIRMAN. To the extent we have $3,000,000,000 or $4,000,000,000 in the Federal Government that comes right out of taxes, we would have no exports. So, at least, if we had no exports we would have $4,000,000,000 at home to develop a larger American market.

General WOOD. Perhaps you cannot do it right away, but certainly you should progressively cut them. I mean cut that portion that has to be raised by taxing the American people.

The CHAIRMAN. If we can permanently maintain exports, that is all right, but I do not like to have a purely artificial business which suddenly collapses as it did in 1929, and tends to accelerate a depression.

General WOOD. Another point is I distinguish between western Europe and Central and South America. Central and South America are in a position similar to our own country, we will say, 60 or 80 years ago. They have great natural resources but they are in transition from agriculture to some industry. They require capital to establish that industry and to improve their position.

The CHAIRMAN. They can pay back their loans as well?

General WOOD. They can pay back, but not western Europe. Western Europe was originally the workshop of the world. They brought in raw materials, processed them and sent them out at a profit. Now manufacturing plants are moving. In other words, England cannot export cotton goods to Brazil, Japan, and China. The position of western European countries, which are overpopulated, is bad; I do not care how many loans you pour down, you cannot restore their economy. You may have to feed them. It is just like pouring money down a rat hole.

The CHAIRMAN. Senator O'Mahoney.

Senator O'MAHONEY. Your theory then seems to be that Europe is finished.

General WOOD. Yes.

Senator O'MAHONEY. And that there is no sense in wasting any concern or time or energy on attempting economic rehabilitation there?

General WOOD. Well, to a certain extent, I believe that theory. I believe that western Europe, a larger portion of it, is finished.

Senator O'MAHONEY. Is there any more logic, sir, in contending that Europe is a finished country than there was on the part of some professional economist in contending that the United States was a finished country?

General WOOD. There is a great difference. We have got about 45 people to the square mile. England has 700; Germany 600 or 700. You take England, a little island—it is impossible with its resources to support the people with a decent standard of living. This country can support a great many more.

Senator O'MAHONEY. England is only a part of Europe.

General WOOD. Well, Belgium.

Senator O'MAHONEY. What about the coal resources of England?

General WOOD. Of what?

Senator O'MAHONEY. What about the coal resources of England?

General WOOD. Germany is the only one that has substantial coal resources.

Senator O'MAHONEY. What about the iron resources of Sweden?

General WOOD. Sweden is in a different category.

Senator O'MAHONEY. How did it come about that Germany was able to organize the economy of Europe so that it took a tremendous effort of the entire production capacity of the United States to compete with their producion? Was that production in Europe under Hitler and Mussolini the sign of a finished economy?

General WOOD. I think it was in that it required their utmost resources to take care of that sixty-odd-million people in Germany. Of course, Italy never did have the productivity.

Senator O'MAHONEY. Your judgment is, I take it, as far as the United States is concerned, it should forget all about Europe and all the people over there?

General WOOD. No; I do not think we can forget all about Europe. I think we have got to do something, give some help, but I think we do it more in the nature of charity than anything else.

Senator O'MAHONEY. If it were possible to restore the productive capacity of Europe, you would not be opposed to that?

General WOOD. No; and I think we should help them to restore what we can.

On the other hand, I think their only salvation is for about 10 to 15 million English and 10 to 15 million Germans and Belgians, and possibly Dutch, to emigrate.

Senator O'MAHONEY. What do you suppose is the thinking of those American business leaders who are investing millions in an attempt to build up the oil industry?

General WOOD. They are not building it up in Europe.

Senator O'MAHONEY. Attempting to.

General WOOD. What do you mean by attempting to build it up?

Senator O'MAHONEY. I mean the Standard Oil Co. of New Jersey, the Socony-Vacuum, and Texas and Standard of California are now engaged in a very broad-gaged attempt to sell petroleum products throughout Europe.

General WOOD. They are putting millions in Arabia.

Senator O'MAHONEY. I am not talking about production.

General WOOD. The amount they are putting in distribution is relatively small. For $1 put in distribution they are putting $10 in production.

Senator O'MAHONEY. All right, General, I will send you some of the hearings and let you judge what the American investments are, and I will not discuss the European situation.

I was very much interested in a paragraph which I read in your statement:

> Too much has been made out of price maladjustments. There are price maladjustments, but most of them will be readjusted within the next 2 years—line by line. These adjustments may cause temporary loss of profits to the owner, temporary unemployment to the worker, but they will not come altogether. So their effect will not be great on the general economy. Their long term effect should be beneficial and tend to postpone a depression rather than cause one.

May I ask you to elaborate a little bit upon this theory that the temporary loss of profits and temporary loss of jobs would have a long-term beneficial effect upon our economy?

General WOOD. What I mean by that, is this, you see an example in New England today in worsteds. The worsteds mill shut down to some extent because the prices were too high and people would not buy. When the prices are right people begin to buy and people go back and buy, and New England begins on a new basis to make profits.

If every industry in the country did that at the same time, of course, there would be a collapse. It is just here and there. In certain types of radios today you have an oversupply. Some factories are closing down, but that, you might say, is a drop in the bucket, but if it affects the general economy and all your mills, cotton, textiles, and steel close down you have a depression.

Senator O'MAHONEY. You will not misunderstand me when I say that sounds suspiciously like the talk we heard after the crash of 1929 when gentlemen in positions of importance were consistently saying, "Prosperity is just around the corner."

General WOOD. I was not one of them. I remember Mr. Lamont was Secretary of Commerce.

Senator O'MAHONEY. I know you were not. Why do you take such a rosy view if you think price maladjustments will lead only to a temporary loss of profits and temporary unemployment?

General WOOD. Because what I tried to bring out here is that your basic industry was never in better condition, that is, agriculture. The farmers in this country are in the best position they ever were.

Senator O'MAHONEY. What puts them in the best position that they were ever in?

General WOOD. They had war profits, and instead of wasting their profits they saved them. They have $22,000,000,000 in bonds and cash. Every country bank in the Middle West, Far West, and the Rocky Mountain States, cattlemen, sheepmen, the ranchers, the farmers of the Middle West are loaded with money and with reserves.

They have got an immense purchasing power to sustain this economy, and that is where it starts.

I judge you are from New England, are you not?

Senator O'MAHONEY. No; I am from Wyoming. I started in New England.

General WOOD. You started there. I can tell by your voice. That states the essential difference, as I tried to bring out in the little memorandum, between 1921, 1929, and 1946.

Senator O'MAHONEY. The purchasing power of farmers will not in itself sustain the market for farmers. That will constitute a market for Sears, Roebuck and industrial producers?

General WOOD. No; that is the start. That is the base of the pyramid. That is the start.

Senator O'MAHONEY. The agriculture in the future cannot subsist on the profits of the war, can it?

General WOOD. No; part of that income is due to these exports to Europe which keep prices higher than they would be if they depended on the domestic market.

Senator O'MAHONEY. Let us assume that to be a fact, and let us assume the exports to Europe were cut off as you recommend.

General WOOD. I do not recommend they be cut off.

Senator O'MAHONEY. You recommend England or Europe. I assume that was your recommendation. Perhaps you wish to change it.

General WOOD. I bring up the question. I do not recommend that they arbitrarily and suddenly stop this aid to Europe, but I think you have got to taper it off, and I think you have such immense potential markets in South and Central America you can more than make up for Europe.

Senator O'MAHONEY. Let us assume that the market to Europe is cut to a minimum, where then will the agricultural production go? To the agricultural countries of South America?

General WOOD. No; what I tried to bring out was that I think within 5 years your domestic market would absorb all your products of agriculture except wheat and possibly tobacco.

Senator O'MAHONEY. I am still turning my mind around that temporary unemployment factor of yours, trying to find out how you anticipate that will only be temporary. You point out that the farmer is the basis of our economy, but his prices have been kept up by the war and exports to Europe, and that the export market will be cut off and therefore he must look to some other market.

General WOOD. No; I do not say that. I say with 40,000,000 more people to feed, the domestic market will absorb the products of our farms in a general way, and that you will not have, with the exception possibly of wheat, any large surpluses.

Senator O'MAHONEY. I hope you will explain this theory to Mr. Goss of the National Grange and to Ed O'Neal of the Farm Bureau.

General WOOD. I know Mr. O'Neal very well.

Senator O'MAHONEY. Will you elaborate a little about your concept of productivity in the United States? In the first place is it a good thing to increase production, and in the second place, if it is, how can we increase it?

General WOOD. If production is increased in tools and machines and in mining, too.

Senator O'MAHONEY. Do you give any credit to the people of America?

General WOOD. The people of America are the people who invented these machines.

Senator O'MAHONEY. Do you give any credit to the more liberal labor policy which you have had in the United States than in other countries? Many figures are presented to show and comments are made that shorter hours and better pay with machines have increased productivity.

General WOOD. The shorter hours and better pay came as a result of machines. There is a direct relationship.

Senator O'MAHONEY. It is the old question of the chicken or the egg.

General WOOD. I do not care how many laws you pass, if you do not buy the machines you could not pay the wages or give the hours.

Senator O'MAHONEY. But you do not write off completely the benefits of better working conditions?

General WOOD. Oh, no, and you want to distribute the purchasing power. Whenever you invent a better machine it gives better productivity and the worker who operates that machine should have a share of that productivity as well as the owner of that machine.

Senator O'MAHONEY. Have you any comment to make to this committee about the effect of productivity on the private-enterprise system?

General WOOD. Of course, the more I see of it, the more I believe in a private-enterprise system as against state capitalism, whether you call it nazism, communism, socialism, or anything else.

Senator O'MAHONEY. Now there has been some testimony before this committee with respect to the desirability of reducing prices and increasing wages for the purpose of increasing production.

General WOOD. I do not see how we can do it.

Senator O'MAHONEY. Mr. McCormick, for example, said the International Harvester Co. has deliberately adopted the policy of sharing between the consumer, the worker, and the owner.

General WOOD. Exactly.

Senator O'MAHONEY. By holding profits down on units, depending upon the larger output and reduced prices, his theory was that any price is too high which can be reduced, and they have adopted the policy of increasing wages.

Mr. BENDER. Is not that the policy of every businessman?

General WOOD. That of course is business statesmanship. You have your customer, the consumer, who ought to come first, your worker comes next, your stockholder comes last. However, if the consumer and the worker is taken care of in the long run the stockholder benefits.

Senator O'MAHONEY. Then you agree with his policy?

General WOOD. One hundred percent.

Senator O'MAHONEY. And in our present system it is possible to hold prices down and keep wages up for the benefit of all?

General WOOD. Yes; I think so, always provided you have those machines.

The CHAIRMAN. And in the limited field of manufacture where prices can be controlled on the Chicago gray market?

General WOOD. No; that is a different thing. The whole success of my own company has been due to the theory that we try to distribute, we do not manufacture, at the lowest prices we can to the consumer. In the last 2 years our main problem has been to get the goods.

Senator O'MAHONEY. What is your view of productivity generally in this country outside of agriculture?

General WOOD. Well, we have some interest in manufacturing, but from our own factories I have not seen any decline in productivity of the average industrial worker, and in that I think labor has been perhaps unjustly blamed in the majority of cases, and certainly, as I pointed out, the productivity of the farmer has increased. The one place labor is responsible is the building trades. Now that is bad.

In some of these cities where a bricklayer has gotten down to 400 or 500 bricks a day it is bad.

Senator O'MAHONEY. It is only proper to call your attention to the fact that the spokesmen for organized labor who have appeared before this committee, have contended that the blame for the reduction of output per man, bricklayers, for example, should not be borne by the worker. He pointed out, for example, in many cases the worker has to wait around for material.

Mr. BENDER. I want to say this regarding brick, there is no shortage of brick.

General WOOD. None at all.

Mr. BENDER. That was advocated by a labor witness before. There are plenty of bricks to be had.

General WOOD. Anyone who has had to build structures in the last 2 years can see the enormous cost and lack of productivity. I do not agree with you there. It might be a free country. After all, in a corporation like our own, after we find our costs are too high, we stop, but the worker who is in need of housing or shelter, is either without a shelter or he has to pay through the nose, and to get at the true facts perhaps a congressional investigation would be necessary.

Senator O'MAHONEY. Again there is testimony before this committee which coincides with previous testimony, namely, that building codes which have not been revised in years and combinations between material men and labor unions have been important factors in increasing the cost of construction. So again, I say labor itself should not be the only goat.

General WOOD. I think you will find in that particular industry labor is the principal goat. I do not have the facts. Only you gentlemen can get the facts.

The CHAIRMAN. We are considering a resolution introduced by Senator McCarthy to go into the question of high costs. It applies not only to the building industry but to all industries.

General WOOD. And in some larger cities there is a combination between material dealers.

Senator O'MAHONEY. But it is your considered opinion that productivity can be encouraged by a policy of reducing prices and maintaining wages.

General WOOD. Yes, within limits, and that is what every wise businessman tries to do.

Senator O'MAHONEY. Thank you very much.

The CHAIRMAN. Are there any further questions?

Mr. HART. General, with regard to price maladjustments that are so prevalent in the country, nearly all of our witnesses ascribe them to the law of supply and demand. Is there not some other reason in these cases where extraordinarily high prices prevail? Is this combination against the public welfare limited to collusion between material supliers and labor, or is it generally prevalent in other industry?

General WOOD. No; I would not say it was not prevalent in other industries.

Mr. HART. You just said the radio industry is in bad shape now; there is an oversupply of radios and some manufacturers are closing down.

General WOOD. Yes.

Mr. HART. And yet the prices of radios today are far in excess of what they were a few years ago?

General WOOD. Yes.

Mr. HART. How is that to be accounted for if the law of supply and demand alone determines the price?

General WOOD. The price of radios has dropped materially. It has dropped and it is dropping all the time. However, you cannot get your prices back to 1939 because materials that enter into radios and the wages that enter into radios are so much higher that you cannot get that price back to 1939. You can get it below that of 1946.

Mr. HART. I am not making any such contention, but in the light of the fact, that there is such an oversupply of radios that factories have to be closed down, it seems a remarkable thing a radio you could purchase for $10 in 1939 now costs you about $30.

I am not suggesting that it ought to be sold at $10, but certainly the disparity between 1939 and current prices cannot be ascribed to the law of supply and demand.

General WOOD. I think you can buy that radio for $20 now and in 2 or 3 months you can buy it for $15.

Mr. HART. That may be true in the Sears, Roebuck catalog, but not on F Street.

General WOOD. That is because the dealer is reluctant to take his medicine.

Mr. HART. Why should the dealer be the only one to take the medicine? Why should not industry be willing to share?

General WOOD. I think the manufacturer is taking his medicine on small radios.

Mr. HART. Certainly the dealers ought to be influenced by his position.

General WOOD. If you care to, I will get you the data on radio prices.

Mr. HART. You think high prices are not due to anything except the absolute working of the economic laws and these prices are not a result of any conspiracy or collusion against the public interest.

General WOOD. With very few exceptions.

Mr. HART. There are bound to be exceptions. That is all, sir.

General WOOD. I think the public will break the price. I mean where they are unreasonably high. I quite agree with you; I have seen in our own stores last year these little radios for $30.

Mr. HART. The danger of that theory is the public will break the price when the public itself is broke.

General WOOD. No; they broke the price on fur coats and garment prices last fall. The women just quit buying.

Mr. HART. Fur coats are not articles of personal use such as radios.

General WOOD. They cut the price of garments.

The CHAIRMAN. Any other questions?

Mr. BENDER. Is it not a fact jewelry prices have dropped?

General WOOD. It started with high prices for fur coats, then women's wear and costume jewelry. Then the bottom fell out of higher-priced cosmetics.

Those four lines all broke and sales stopped. They were tremendously reduced. The public evidently decided that they were too high priced and they did not want them so they quit buying, and that broke the market.

Senator O'MAHONEY. Are there any other fields in which you think prices are too high?

General WOOD. I think the textile prices are too high and sooner or later they will break. The demand is so great right now on cotton, rayon, and woolen goods that until the supply catches up there will be no price breaks.

Senator O'MAHONEY. If prices are too high, then, would you not think in the interest of producers as well as consumers, they ought to be brought down?

General WOOD. Yes.

Senator O'MAHONEY. That being the case, what do you think industry and business should do to bring prices down?

General WOOD. Well, I am now speaking from the standpoint of the distributor. I buy the goods to resell to the consumer.

I talked to a number of cotton manufacturers and I told them their prices were way out of line; that they were not following what I call business statesmanship by reducing their prices, because I think in some cases their profits are entirely too high.

Senator O'MAHONEY. Do you do anything except advise them their prices are too high? Do you cut your orders?

General WOOD. We have cut our orders. We have stayed out of the market 3 or 4 months in the hope we could break the market.

Senator O'MAHONEY. That is a good policy for the consumer and also for the distributor.

General WOOD. Yes. There is a limit to where we could go. If the consumer keeps buying from us, sooner or later we have got to buy from the mill.

The CHAIRMAN. Are there any other questions?

Mr. HART. I read in the press, General, that at the time your last catalog was issued it carried a caution to prospective buyers that prices might increase over those in the catalog. Is that so?

General WOOD. Not in our last catalog; not in the one just issued. As a matter of fact we told our customers if prices declined we would give them the benefit of this reduction over the quoted price in the catalog. It is not our belief that prices will increase at all this fall.

Mr. BENDER. Is your catalog still in as great demand as it used to be?

General WOOD. Well, all I can tell you is we are 1,000,000 short of our requests.

I might end, Senator, by saying that one of the things I think fooled everybody after this war was the enormous consumptive power and enormous purchasing power of this country.

In 2 years—now it took Sears 60 years to reach a billion dollars in sales. We reached a billion in sales in 1945. If we continue at the rate we are going now, we will reach 2 billion this year.

In other words, we have attained in 1 year in money value the business it took us 60 years to get.

Senator O'MAHONEY. Do you happen to know how much your catalog weighs?

General WOOD. About 7 pounds.

Senator O'MAHONEY. So you are 7,000,000 pounds short of paper now?

General WOOD. Yes; twice a year.

Senator O'MAHONEY. Fourteen million.

General WOOD. We issue a spring and fall catalog. We cannot get the paper.

Just for your information, I might add one thing.

We built a store in Mexico and we are building two stores in Brazil. Recently we had some of our engineers up from Mexico and Brazil who brought their wives along, and their one statement is that they have had quite a bit of trouble restraining their wives from buying everything in the States because our goods are so much cheaper. I am not talking about Sears' goods, but various department stores in Chicago and New York, and our prices compared to the rest of the world are way under.

In fact, in Mexico we undersell the local merchants 25 percent, and then they are prices I would be ashamed of in the United States.

The CHAIRMAN. Any other questions? [No response.]

Thank you very much, General Wood. We appreciate your coming on and your advice and assistance.

STATEMENT OF GEORGE M. HUMPHREY, CHAIRMAN, PITTSBURGH CONSOLIDATION COAL CO., PITTSBURGH, PA.

Mr. HUMPHREY. Mr. Chairman and members of the committee, I was summoned to appear before this committee to discuss the subject of your general inquiry long before there was a settlement of the recent coal wage contract.

However, in view of all of the questions that have since arisen with respect to that settlement, it would be inappropriate now not to discuss the coal contract and its effect upon the so-called wage-price spiral.

When the mines were turned back by the Government to the operators last month, Mr. Lewis simply said that his men were unemployed, there being no contract in effect, and that if the operators wanted to employ them certain conditions would have to be met or the men would not go to work. Whether that would constitute a strike or not within the meaning of the new labor law was something for the lawyers and courts to decide, but there was no doubt that little, if any, coal would be mined in the meantime.

This was not a theoretical matter—it required a practical decision. There were two immediate courses open: Either let the mines stay idle and resort to mediation, litigation, or legislation, or another Government seizure; or on the other hand, work out with the union the best possible terms that could be voluntarily agreed upon.

The first consideration was, What would the consequences of each of these alternatives be?

Coal is in great demand both here and abroad and stocks are relatively low. Without coal production it would be only a short time before transportation would be crippled, steel production curtailed, and all manufacturing dependent upon coal, steel, and transportation would be seriously interrupted, with consequent unemployment and increased shortages of many commodities for use both here and elsewhere throughout the world.

While 400,000 miners would face payless pay days voluntarily, there would be many thousands of other workers who would be forced into involuntary idleness and loss of pay. Further shortages would force higher prices and the familiar spiral of increases would continue to go further out of control.

The Taft-Hartley law was new and its application to these particular circumstances involved unsettled questions upon which legal authorities differed.

The Smith-Connally law had expired and talk was current concerning the possibility of new legislation by Congress for seizure by the Government or proposed new remedies, the results of which no one could foresee. All this would be time-consuming and nothing was suggested which would start the mines working after the miners' holiday and prevent the serious interruption to the production of coal, with all the vicious consequences on the general economy of the Nation as well as those resulting from further shortages of many much-needed articles of commerce. Furthermore, all our past experience had been that when once the Government intervened in a labor dispute, it finally granted about all that was asked by the union, but only did so after serious strikes had taken place causing great damage and inconvenience to the public as well as to our customers and ourselves.

On the other hand, what would be the result if an agreement could be reached through collective bargaining? The men would then return to work and production would continue in coal, steel, and many other commodities. There would then be no crisis threatening soon to paralyze a large part of American business. As production rose and finally supplied demand there would be an application of the economic law of supply and demand with a resulting pressure on prices. Clearly the choice of courses to follow was that of reaching an agreement and maintaining production all along the line with all of the benefits to the entire Nation that would result therefrom, unless the price of such an agreement was unreasonable and excessive.

There was so much speculation and misinformation about this contract during its negotiation and before it was actually prepared and available for study that many people have become confused by the inaccurate and misleading stories they have read or heard. Are the terms of the settlement really inflationary or unreasonable? Let us consider just what they are.

The miners' request for six additional paid holidays which was made in this case, as well as in many others recently, was denied and withdrawn. The request for premium pay for Saturdays and Sundays as such was also denied.

Further safety precautions are earnestly desired by both parties, and an additional constructive safety program was agreed upon.

The purposes and general administration of the welfare fund which was the real cure of the last bituminous coal strike and was first established by the Government after its seizure of the mines about a year ago were settled so as to accord with the terms of the Taft-Hartley law. This fund is for an employees welfare program to be used and administered strictly in accordance with that law.

The issue of the unionization of foremen has caused two recent industry-wide strikes and many local interruptions to production. An agreement was finally reached in this contract which not only complies with the Taft-Hartley law, but may well settle this serious issue for the benefit of all industry.

Under the new contract there is reserved to management, free from union control or organizational activities, all necessary management employees, and at the same time the union is protected from the abuse of such exemptions. There is nothing more important to the efficient functioning of our industrial system than the proper settlement of this long-standing controversy regarding foremen.

It has been said that this agreement was purposely designed to avoid the real intent and obligations of the Taft-Hartley law.

It is not practical to try to analyze all the legal obligations of the parties under the contract. Certain points, however, have been raised upon which comment is warranted. The first is the so-called willing and able to work clause, which was first included in an agreement with this union by the anthracite coal operators about a year ago. That clause is contained in the following sentence:

> It is the intent and purpose of the parties hereto that this agreement will promote and improve industrial and economic relationship in the bituminous coal industry and to set forth herein the basic agreements covering rates of pay, hours of work and conditions of employment to be observed between the parties, and shall cover the employment of persons employed in the bituminous coal mines covered by this agreement during such time as such persons are able and willing to work.

On this point the Taft-Hartley Act provides in section 502:

> Nothing in this act shall be construed to require an employee to render labor or service without his consent, nor shall anything in this act be construed to make the quitting of his labor by an individual employee an illegal act.

If an employee is unable or unwilling to work and wishes to terminate his employment, he may do so in compliance with the contract and the law which says he shall not be required to render service without his consent. If, on the other hand, he has a grievance, the contract provides that—

> * * * any and all disputes, stoppages, suspensions of work, and any and all claims, demands, or actions growing therefrom or involved therein shall be by the contracting parties settled and determined, exclusively by the machinery provided in the settlement of local and district disputes, section of this agreement, or, if national in character, by the full use of free collective bargaining as heretofore known and practiced in the industry.

It is not unusual to provide for the arbitration machinery to be used as the remedy for disputes under a labor contract, and it does not contravene the policy of the Taft-Hartley Act.

It has been asserted that the check-off provision of the contract does not comply with the requirements of the law. There seems to be some confusion as to whether dues alone may be checked off on the basis of voluntary employee authorization as contrasted with the check-off of initiation fees and assessements. This will probably later be clarified, but regardless of this relative detail, no violation of the law is intended by the contract which in the check-off section provides:

> In order that this section may become effective and operate within the limitations of the Labor-Management Relations Act, 1947, the Mine Workers hereby agree to furnish, with all reasonable dispatch, to the respective operators, and the operators agree to aid, assist, and cooperate in obtaining written assignments from each employee so employed.

If the law is held to limit check-off to dues only, the law shall be complied with because it is clear from what I have just read that the intent of the parties was to "operate within the limitations of the Labor-Management Relations Act, 1947."

The union did demand clauses which, in the operators' opinion, would have contravened the provisions of the Taft-Hartley law, but which in the opinion of the union were proper. The operators were adamant in refusing to grant such provisions. There is no provision in the contract which was intended or which, if properly construed, weakens in any way the right of Government to enforce fully any and all provisions of the law and which is not in full compliance with the law. In fact, it would be impossible for the operators, even if they cared to do so, to make a valid contract which would be contrary to the provisions of the Taft-Hartley Act.

This brings us to the important matter of wages and hours.

Under one of the previous settlements maybe the Government after seizure of the mines, a 9-hour portal-to-portal day underground was established by Secretary Ickes as a war measure. When the mines were again seized by the Government about a year ago, an agreement was made by the Government with the miners that the 9-hour day continued notwithstanding the fact that the 8-hour day and the 5-day week was then being adopted by most other industries and an increase of 18½ cents per hour was generally being paid to maintain the take-home pay in view of the reduction in hours.

By this Government agreement the pay was increased but the hours were not reduced. This left the coal business in a situation different from most other industry. Wages for the coal industry were increased but hours of work were not reduced and the preservation of take-home pay had to be faced in the future whenever a new agreement was reached which reduced hours. We could have no objection to the miners' request to eliminate the ninth hour and adopt the 8-hour day underground as standard in coal mines as is customary in other industry. But because it had not been settled in the coal business when it was generally settled in most other businesses, the ninth hour had to be dropped in the new contract without reducing the pay per day. We did not think that in view of present conditions we were justified in demanding a reduction in take-home earnings at this time and we do not believe we would have been supported in such a demand as the reason for a serious coal strike.

Despite many statements which have been made to the contrary, the only increase in the miners' take-home pay is an increase of 15 cents an hour, or $1.20 for an 8-hour day. This wage increase is identical with the wage increase of 15 cents per hour granted recently in many other industries to meet increases in living costs. It does not set up a new wage pattern, but rather conforms to an already existing wage pattern.

Under the new contract a coal miner gets the same pay for an 8-hour day underground as he formerly received for 9 hours underground plus this wage increase of 15 cents an hour. In the absence of overtime his take-home pay is increased under the new arrangement only to the extent of 15 cents an hour or $1.20 a day.

Under the Government agreement in force last year, a base-rate man working a 5-day week took home $59.25 for his week's work. Under the present agreement, he will take home $65.25, or an increase of $6 per week. If, because of the miners' declared desires and the very high cost of premium pay for the sixth day's work the industry should stabilize on the basis of the 5-day week as is common in so many other industries, a base-rate man who previously worked 6 days will have $10 less take-home pay for his 5-day week under the terms of this agreement than he was previously earning, but, of course, he would be working one less hour each day and one less day in the week.

The hourly wage of the miner is high under the agreement, and it should be. Coal mining differs in many important respects from almost all other industries. It is a hazardous occupation. The economy of the whole country now and for the future depends on the type of men who seek and take employment in coal mines. Since the war the sons of coal miners have not come to the coal industry for employment. The industry must attract high-grade young men if the coal industry in America is to continue to be the most progressive of any country in the world. In our negotiations with the union we strove to arrive at a contract which would produce this result.

A comparison of earnings will demonstrate that they are not out of line with those in other industries considering the nature of this industry and the kind of work required. Certainly there is nothing wildly inflationary or grossly unreasonable in paying such wages to our employees.

The increase in the cost of coal on this basis will vary with different mines in different districts but even if it is to average as much as 75 cents to $1 per ton as now estimated, it is entirely possible that as the working forces get adjusted to the shorter hours and more efficient operations result, the tonnage per man per hour may increase and, if so, costs and prices may gradually be expected to decline. If the cooperation which has been promised by the miners' union is realized, and it is much more apt to be so by satisfactory mutual agreement than by strikes and Government controls, increasing production and increasing efficiency will surely mean more coal at less cost.

On the other hand, the effect of shortages on prices is conclusively illustrated by the increase in spot prices for coal which have taken place recently when a strike and shut-down was only threatened and which are right now much more than the actual advance in cost which will result from this contract. It is only reasonable to expect that these higher prices will gradually be adjusted downward when, as a result of this agreement, it becomes apparent that production will continue and a supply of coal will be currently available.

Only continuous production will give other industries and the American public the coal and the other things dependent upon coal in the volume which is required, and not until that volume is attained and demand is more nearly in balance can we hope to gain much-desired economic stability. Strikes causing interruptions to production and resulting further shortages of various articles will be most costly and damaging to the Nation.

It has been said that Big Steel and Big Coal made this settlement, to the detriment of small coal business. The exact reverse is true. Small coal operators are by far the largest employers of contract miners who work on tonnage rates while the large mines, which are mechanized, employ almost wholly hourly and day-rate men.

Tonnage rates are not increased at all by this agreement and the tonnage man is increased only $1.20 per day, whereas the hourly and day-rate men get the same $1.20 per day increase as well as the maintenance of their old take-home pay for 9 hours for now working only the new reduced 8-hour day. The advantage competitively is all in favor of the small mines and against the large operation.

The negotiations which led to this agreement began many weeks ago. The southern operators' groups immediately withdrew. The remaining operators' negotiating committee continued to meet with the miners' representatives only breaking from time to time when failing to reach agreements on the several issues. The union's demands for reduction in hours and increase in pay were never modified in the slightest degree.

Mr. Fairless and I were called in by the operators' committee after an impasse had been reached, in a last attempt to work out an agreement. When the settlement as finally proposed was submitted to the northern and captive coal operators for their approval it was unanimously adopted.

By avoiding the strike and all of the resulting damage that would surely follow, this agreement will do more to stabilize the economy and retard inflation than has the settlement of any controversy in the soft-coal business during the past several years. Production and only production which creates a balance of supply and demand is the only sure cure for the increasing wage and price spiral.

This new agreement is in full compliance with the spirit of the new Taft-Hartley law which covered several of the most controversial issues and it terminates the trend toward Government dictation of industrial relations and seizure and control of business.

The CHAIRMAN. Mr. Humphrey, just commenting on some of your discussion of the law: In the first place, of course, you are right that nobody knows whether the law did or could apply to a situation where you could require a man to work for somebody they had not worked for before.

We faced that in drafting the law, and we doubted whether a 60-day injunction could work.

Mr. HUMPHREY. I think, Senator, you stated to the press during these negotiations that this Taft-Hartley law was not aimed at the coal business, at this particular situation.

The CHAIRMAN. At this particular situation. Now on page 3, the request for premium pay on Saturday and Sunday, as such, is also denied. That is, you mean, unless it is sixth or seventh day?

Mr. HUMPHREY. That is right, premium pay for Saturday or Sunday.

The CHAIRMAN. For work on Monday he gets none.

Senator O'MAHONEY. If Saturday is the fifth day?

Mr. HUMPHREY. It is straight time and not excess.

Senator O'MAHONEY. If Sunday was the sixth day?

Mr. HUMPHREY. No; the sixth and seventh are premium days. The sixth is time and one-half and the seventh is double.

The CHAIRMAN. What do you think the total results in total production will be? Will you require more miners working?

Mr. HUMPHREY. We do not know.

The CHAIRMAN. To get the same production?

Mr. HUMPHREY. We do not know. It is going to vary greatly in different mines. There are some mines, quite a number of mines, that will not lose any tonnage because they have not been getting enough railroad cars to run full anyway, and in those cases where the limitation on production is railroad cars rather than the productivity of the men, it will have very little effect.

In other cases, where mines are less efficient, they will get more. The mines that will suffer the most is the mine that has been running full time and very efficiently operated.

The CHAIRMAN. Will more labor be available if you need it?

Mr. HUMPHREY. In some places and not in others. Let me say one more word there. There will be more labor available under these terms than there would be without them in competition with other industry.

The CHAIRMAN. You state the agreement shall cover the employment of persons employed in the bituminous-coal mines during such time as such persons are able and willing to work.

As a matter of fact, if a mine has no business they do not guarantee them work?

Mr. HUMPHREY. No.

The CHAIRMAN. It does not seem to me there was any violation of the contract.

Mr. HUMPHREY. It is simply a normal statement of what happened; that is all.

The CHAIRMAN. And furthermore it would seem to me if you are to have free collective bargaining, you could make any kind of contract you wanted to. If a grain merchant sells 100,000 tons of wheat to somebody, he may be willing to put into the contract that his failure to do so may not be a violation of the contract.

It seems to me entirely a question of freedom in collective bargaining. I could not see how it could be said to be a violation of any law. There is no law concerning the making of a contract like that if the parties agree to it. It may be an unfair labor practice but there is no law against it.

Mr. HUMPHREY. That is right.

The CHAIRMAN. There has been a good deal of talk about how this will substitute the court for arbitration. That has never been so. It is always subject to an agreement that it shall first be submitted to arbitration. Nobody in any trade or industry can bring a suit.

Mr. HUMPHREY. We have a system of legal umpires and it is the most natural thing in the world.

The CHAIRMAN. I do not think the checkoff provision does include initiation fees, but if you get a written assignment from a man saying that you may check off initiation fees, that is no violation of the Taft-Hartley law. The Taft-Hartley law says you cannot have the checkoff or dues or for initiation fees without the written consent of the man who is checked off.

If he does give his written consent it is perfectly legal; it is perfectly legal to give consent for the checkoff initiation fees, assessments as well as dues, if he wants to.

Mr. HUMPHREY. That was the subject of discussion between the lawyers for the union and our own as to what the word meant and it was decided to put in this way, and it was put in it must comply with the Taft-Hartley law and that law settled this issue.

The CHAIRMAN. If a man chooses to give an assignment the law does not prohibit it. What the law was reaching was paying the union money without the man's consent. That is what is prohibited by law.

Mr. HUMPHREY. Yes, sir.

The CHAIRMAN. I notice you suggest an average increase of 75 cents to a dollar. Is that a different sort of poll, or is that a different method of calculation?

Mr. HUMPHREY. No, Senator, these increases vary. The increases were established beginning last week and, in sending bills, buyers were advised that these prices had to be made. These prices were put out last week. In our own company we have an increase ranging from 40 cents a ton for strip coal in western Pennsylvania, 50 cents for northern West Virginia coal, which is a large area of production, 73 cents in western Pennsylvania for underground, and 75 cents a ton in Ohio, and I think that in the South there are some increases that are being put in as high as a dollar or a dollar and a quarter a ton.

We ourselves have only two operations in the South, and that coal happens to be going to some of our companies and we have not billed it.

The CHAIRMAN. I think there was some statement made asserting when things settled down these prices should not be over 50 cents.

Mr. HUMPHREY. It is going to vary. The increase is going to vary just the way the price of different coals vary. Coal does not all sell for the same price. Coal may differ in different districts and it may sell at the same price, and coal from the same district may sell at a different price. Coal varies with respect to the quality and kind and where it comes from. There will be variations in amounts and increased charges, as in various prices——

The CHAIRMAN (interposing). As coal mining becomes profitable will any margin of increase be absorbed from profit?

Mr. HUMPHREY. I have here a statement taken from the last 9 months' report of OPA which may be of interest.

This is 1946. [Reading:]

Hand-loading mines: Labor cost, $2.84; total cost, $4.13; realization, $4.10; margin, minus 3 cents.

Mechanical-loading mine: Labor cost, $2.15; total cost, $3.46; realization, $3.50; margin, 4 cents.

Strip mining: Labor cost, $1.20; total cost, $2.59; realization, $2.88; margin 29 cents.

The average margin on the total production reported was 7 cents.

The CHAIRMAN. Is this your own company?

Mr. HUMPHREY. No, sir; this is the report of the entire industry during the last 9 months of 1946, which are the latest figures of the OPA.

Those margins of course can vary with different companies and in different sections. That is the composite average.

The CHAIRMAN. Would you say the increase in cost would be reflected in the cost of coal?

Mr. HUMPHREY. As nearly as it can be estimated. What we are doing in our own company is this: We made very careful studies and have estimated such benefits as we thought probably would accrue in increased efficiency because of shorter hours and increased production per hour per man, and we have based our estimate of increase in cost on that, and based the price on that, and in that connection last week we sent a letter to our customers, reading as follows:

> A new wage agreement with the United Mine Workers involves a reduction in hours worked and an increase in the total take-home pay which will result in a substantial increase in the cost of producing coal.
>
> Estimates of those increases are difficult to make because there are no means of determining what effect the shorter working day will have on the tonnage output.
>
> It is believed this increase in cost may vary among producing districts from 50 cents a ton to more than $1 a ton.
>
> We have made very careful studies and have calculated that this increase will amount to 73 cents per ton in western Pennsylvania, and, therefore, we shall bill coal shipped on your contract as of July 1 at this increase in price.
>
> This estimate is based on an anticipated increase in the efficiency resulting from shorter working hours. Should that increase in the future be greater than we now think and those costs are found to be lower than 73 cents, we will advise you by August 15 and make proper adjustment.
>
> If on the other hand actual costs increase under the terms of the new contract become higher than this figure we will aborb that additional cost.
>
> As there has been considerable discussion of this new agreement we are enclosing a copy of the memorandum sent to various key employees the day before the contract was signed, because it may be of interest to you.

The CHAIRMAN. Are you familiar with the steel situation and whether or not it is likely to increase the cost on the price of steel?

Mr. HUMPHREY. I am not prepared, Senator, to discuss the possible steel increase. I can say this: The cost of coal to the steel companies will increase and it will increase differently from different districts in different amounts. Those cost increases will not be particularly different to steel companies than others. There have been some wide increases in their trade, such as scrap and tin, which have contributed to the increased steel cost.

Those costs are being studied and until we know more about them I am not prepared to say.

The CHAIRMAN. Is there a formula of the number of tons of coal required to produce a ton of steel?

Mr. HUMPHREY. Not exactly; it depends on many factors, power, gas from coal, and some use more oil relatively than others, but just roughly speaking there is from 2 to 3 tons of coal in a ton of steel produced; I should say 1¾ to 3.

The CHAIRMAN. Any questions?

Senator O'MAHONEY. Mr. Humphrey, let me compliment you first on a very interesting and clear statement. I think you have done a good deal to help the understanding of this committee, and I observe in your closing statement you take considerable satisfaction, and I think properly so, in the fact that the Government is out of the coal industry and private management is back.

Mr. HUMPHREY. I am very happy about that.

Senator O'MAHONEY. May I ask you what your judgment is as to the probable effect of that upon production in industry?

Mr. HUMPHREY. Well, Senator, I can only give you my own opinion based on our own experience.

We are interested in the operation of anthracite mines as well as bituminous mines.

During the past year or more the anthracite mines have been operated without the Government. They made a contract without Government intervention over a year ago. During the period the bituminous mines have been under Government control there is no comparison at all between the degree of cooperation and efficiency which has obtained in the anthracite and bituminous mines. We went through the year in the anthracite mines with very little difficulty, with great cooperation from the union. The union even went to the extent of advertising in the local papers and writing letters to the miners' homes, advising them that the only way in which the higher wages they were receiving could be paid was for the men to earn that pay by mining more tons a day.

That is fundamental to the payment of high wages. You cannot pay a man what he does not earn. The only way we can keep up high wages is by better organization, better equipment, better tools and more tools, so a man can earn more money.

Senator O'MAHONEY. In the anthracite mines the measure of this better efficiency under private managership as compared with Government managership was to be found not only, I take it, in the degree of cooperation of which you spoke but in the maintenance of a high rate of production?

Mr. HUMPHREY. The experience was much better in the anthracite mines than in the bituminous mines during that period.

Senator O'MAHONEY. So we are entitled to draw the inference there will be greater production in the bituminous mines now that the Government is out than before?

Mr. HUMPHREY. That is a thing that has been very definitely promised by the union, and it is part of the consideration for the contract.

The CHAIRMAN. Do you think you can get the same cooperation from Senators and Congressmen as you do between the union and yourself?

Mr. HUMPHREY. I will tell you more about what cooperation we get a year hence.

Senator O'MAHONEY. You spoke of this contract being an antidote, if you please, to the inflationary trend.

Mr. HUMPHREY. That is right.

Senator O'MAHONEY. In other words, the soft-coal business during the past several years suffered from much unrest and conditions were very unsettled, and you explained why you thought this new contract would be better all around, and you also explain that under this new contract the increase in wages to the miners is only $1.20 a day?

Mr. HUMPHREY. That is right.

Senator O'MAHONEY. And extra pay for Saturday and Sunday has been eliminated, and so forth, so it is not as great an increase in wage costs as original reports appearing in the newspapers possibly led people to believe.

Mr. HUMPHREY. It is not as great an increase in wage money. It is an increase in wage costs, cutting out the hours. It does not give you any more money, but it gives much more cost.

The CHAIRMAN. The money has not increased?

Mr. HUMPHREY. The money has not increased but the cost has substantially increased by reduction of hours.

Senator O'MAHONEY. In the anthracite mines which the Government had not taken over, you had a higher rate of production per man than in the bituminous mines.

Mr. HUMPHREY. That is not correct. You did not get more tons per man in the anthracite mines than in the bituminous, but the relative situation improved.

Senator O'MAHONEY. The relative situation.

Mr. HUMPHREY. Right.

Senator O'MAHONEY. So one might be entitled to judge that by the retention of private management, the rate of production would immediately increase?

Mr. HUMPHREY. No, immediately is too quick.

Senator O'MAHONEY. Immediately is too quick?

Mr. HUMPHREY. That is right. It will increase, I think.

Senator O'MAHONEY. The cost to the consumer is immediately increased?

Mr. HUMPHREY. That is correct because, until that is realized, Senator, there is not any way in the world of handling it.

There are a great many small mines, as you know, in this country, there are many of those who cannot afford to take a chance or they will be out of business. Their margins are very narrow and they have to get a price which is going to recompense them as they go along.

In our own case it might be we could stand some losses for a few months while we were finding out, but to refrain from increasing these prices would be a very serious thing and it would be a very serious thing for our company to do even though we might be able to stand the loss, because the newspapers have had a story that maybe this whole thing was wicked scheme on our part to keep cost up and prices down and bust a lot of our smaller competitors and get them out of business. Of course, that is ridiculous, but the claim has been made. We do not know what these increases will be, and we will not know what it will be in a day, or week, or a month. We will get some indication of it in the nevt 6 weeks and will act accordingly. Naturally we do not want to be instrumental in making people operate at a loss.

Senator O'MAHONEY. I understood you to say this settlement was of greater benefit to the smaller operators than the larger ones.

Mr. HUMPHREY. That is correct.

Senator O'MAHONEY. So does it not follow the large operator could show the way of holding prices down?

Mr. HUMPHREY. We can, and that is what I think we are doing, as I indicated. There is a lot of difficulty in showing the way. We have made extremely careful studies in determining the price we are going to charge. We have discounted greater efficiency.

Senator O'MAHONEY. What is running through my mind, Mr. Humphrey, is that an increase in cost of fuel may be reflected in every line of industry?

Mr. HUMPHREY. That is right.

Senator O'MAHONEY. If it is reflected in the cost of steel it will tend to be exaggerated in every industry that depends on steel.

Mr. HUMPHREY. That is right.

Senator O'MAHONEY. And in this paper you have pointed out that the future of the coal industry depends on your ability to recruit young men into mining?

Mr. HUMPHREY. Yes, sir.

Senator O'MAHONEY. It seems to me, therefore, it is of great importance to the coal industry to retard inflation as effectively as possible, and that could best be accomplished by withholding these increases until you actually know by an accounting that you are in danger of sustaining a loss, since by the return of the mines to management you will have more efficient management and greater production. Is that correct?

Mr. HUMPHREY. It is correct right up to the end, and that is where you and I differ. We only differ in degree.

We are all interested, everybody is interested, in preventing inflation, in stopping this spiral. It is our firm belief that there is only one way to do it. There is just one answer to it, and that is to have production equal demand or approach or nearly equal the demand and then you will have a natural pressure on prices which will take care of them.

Now it was that thing that guided us. It is true, one of our greatest troubles today is because of fictitious shortages, by the long shutdowns. That is why we did not want to repeat it.

The only difference between your thinking and our thinking on the subject of this price increase is that this cost is more than can be entirely absorbed. I think some part of it can be absorbed. I think some part of it will be taken up by greater efficiency; but I do not think it all will be. Just where that line is we do not know.

Senator O'MAHONEY. I see your line of argument, but testimony before this committee and reports that come from various sources, and the Department of Commerce, are to the effect that industrial profits generally were greater by far in 1946 than in 1945, and that in 1947 they have been rather at a pretty high level, so naturally the question arises whether or not it would not be in the interest of industry itself, from its own point of view, as well as in the interest of economy generally, for industry which has profited so much, to rely a little more upon those profits which have accumulated than to increase prices in a commodity which is bound to reflect itself all the way down the list?

Mr. HUMPHREY. Our thinking is exactly parallel to yours except as to the matter of time and the matter of degree. You realize there is a lot of spot coal sold that is way above these prices. Now there is a very substantial tonnage of coal that is going to come down and quite rapidly and in large amounts.

Senator O'MAHONEY. There is no doubt about that. The testimony of automobile manufacturers before us shows that they are holding prices down and that they are not charging the prices they could have charged, but the prices in the local communities and in the so-called gray market are way beyond the list price. There is that disproportion.

Mr. HUMPHREY. That same thing is true of coal and there are prices in many instances of $2 a ton more than we charge. We could get a lot to export at higher prices, but we are sending it in the regular channels of trade at customary prices.

The CHAIRMAN. Are you getting the price of coal up where it can compete with oil, with things settling down in the oil fields?

Mr. HUMPHREY. Senator, that is one of our greatest worries, that we will price ourselves out of the market and we will get in an angle where we will have our volume decline over a period.

The only answer we have is this. It is our job to further mechanize these mines, and the better mechanized and organized these mines are, the more we will get the price of coal down and bring it down in competition with whatever we have to meet.

I think that will occur, and I think this is a long step in that direction. I think avoiding another bitter fight and further shortage is a long step toward lowering coal costs.

The CHAIRMAN. What you are really saying is expressing the hope which we all have that at least a part of these increases in wages in the last 2 years are to be gradually compensated for by increased productivity?

Mr. HUMPHREY. That is the only way we could get along.

Senator O'MAHONEY. Has your company undertaken any recent experiments on the hydrogenation of coal?

Mr. HUMPHREY. We are the company engaged on the conversion of coal to oil.

Senator O'MAHONEY. What do you think is the prospect for future development of that?

Mr. HUMPHREY. I think it is a long hard job, but I think we are going to do it.

Senator O'MAHONEY. You do not have any information yet what the price per gallon will be?

Mr. HUMPHREY. No; it is related of course to what the price of gasoline is. We have seen enough of it so that we are spending a lot of money and expect to spend a lot of money through a period of years. We think we are going to accomplish it and it will make a great change in this business, but that will be over a period of time.

The CHAIRMAN. Congressman Bender.

Mr. BENDER. Since coal is the big commodity, I think the agreement you and Mr. Fairless were sponsoring, because of its econqmy, was one of the finest pieces of work done since the end of the war. In fact, I think it is one of the finest things that happened. I think it is the most wholesome thing we have had in a long time.

Mr. HUMPHREY. It is very nice to have you say that. You are in the great minority.

The CHAIRMAN. Do you have any questions, Senator Sparkman?

Senator SPARKMAN. No.

The CHAIRMAN. Mr. Hart?

Mr. HART. Most of the questions I had in mind are answered in Mr. Humphrey's statement and the Senator's questions.

With reference to Congressman Bender being in the minority, I have a number of letters from small businessmen, exorcising your company and the steel companies for entering into an agreement of this kind with the miners because they claim it will cause a general increase in prices, and while you with tremendous resources will be able to ride the storm and control it, many of them may be put out of business on account of it.

What have you to say about that attitude on the part of small business outside of the coal industry?

Mr. HUMPHREY. I have had a great many letters just like yours. The only thing is this, I think they are on the wrong track. I do not think they took into account what might have happened if we had a strike and further shortages.

So far as this contract having effect on wages in other businesses is concerned, I don't think it should have any, and I think the statement we have made demonstrates it to you gentlemen and everybody.

The money increase is 15 cents an hour. The cost increase comes about through a reduction of hours, and very frankly the reason that the cost increase falls on us is because the Government when it paid 18½ cents an hour did not get its money's worth. It passed the buck to us and we have to take it now. Nobody would want to spend 9 hours a day underground in a coal mine. If the Government wanted to pay 18½ cents it should have received its money's worth. It paid for that production but it did not get it. If it had gotten what it paid for this thing never would have occurred. There is no other industry in that situation. It is peculiar to the coal business. It is peculiar to the coal business because the business was handled by the Government and the Government had to work out a deal.

Mr. HART. Even though their argument was incorrect and it did cast the burden on you, it is believed the burden as a result of the agreement would be much less than a prolonged strike.

Mr. HUMPHREY. I am just sure of that.

Mr. HART. There is one question troubling me. Generally speaking industry wants the raised wages passed on by increasing cost to the public, does it not?

Mr. HUMPHREY. At least partially; yes.

Mr. HART. Well, probably altogether.

Mr. HUMPHREY. It depends entirely upon the emergency and the demand.

Mr. HART. What I did not understand is you made the statement the only way you could afford to pay increased wages is to have productivity of the worker at the highest level to justify increase in wages.

Mr. HUMPHREY. That is right.

Mr. HART. I do not understand why, if that is passed on to the public, it would require increased productivity. Industry generally is not absorbing the cost. It is passing it on.

Mr. HUMPHREY. It is passing it on. It is a matter of time. There is an immediate increase of cost. That cannot be offset the same day. What happens when that increase goes in over a period of time, increased efficiency, equipment, and organization greatly bring that cost down, and if you will look to almost anything in America where efficiency has increased, prices have declined.

Mr. HART. We are told, on the other hand, that the price goes down because the demand decreases, not because it increases.

Mr. HUMPHREY. No; as your volume comes up, productivity comes up and prices come down.

The CHAIRMAN. There is a stop-loss factor. When you get below cost of production you have to quit.

Mr. HUMPHREY. Again it is not important. There are a lot of businesses where the demand falls off and falls below a certain point. It equalizes out with supply and demand and go about your business.

Mr. HART. I notice in your support of some of your argument you quoted OPA figures. Do you generally regard OPA figures as being authentic?

Mr. HUMPHREY. I acquired those figures as being the best figures available.

Mr. HART. You do not want to attest to their validity?

Mr. HUMPHREY. No, sir.

The CHAIRMAN. We have one of the President's economic advisers, Mr. Clark.

I wonder whether he wants to question Mr. Humphrey?

Mr. CLARK. Thank you, Senator. I only wish when I was practicing law I had a witness as candid as Mr. Humphrey.

The small producers are the nonmechanized.

Mr. HUMPHREY. Many of them are nonmechanized.

Mr. CLARK. They are the ones that pay piece rate at their mines?

Mr. HUMPHREY. Yes, sir.

Mr. CLARK. What is the coal production from the piece-rate group?

Mr. HUMPHREY. Well, let us see if I have that. Hand-loading operations were 4,547. This is for 1945, the latest figure; they will illustrate; 4,547 produced 126,000,000 tons, which was 22 percent of the total that year.

I will give you the others for 1945.

There were a total of 7,033 mines. The tonnage mechanically loaded was 263,000,000, or 46 percent. The tonnage hand-loaded was 205,000,000, including that of partly mechanized mines, or 35 percent. The strip coal, 110,000,000, or 19 percent. Total tonnage was 578,000,000.

Now, the number of mines that produced that 22 percent was 4,547 out of a total of 7,000, so that about two-thirds of the mines produced about one-fifth of the tonnage.

Mr. CLARK. Are strip miners on piece rate or daily rate?

Mr. HUMPHREY. They are largely on daily rate, almost entirely.

Mr. CLARK. Does a miner in a piece-rate mine produce several tons of coal a day?

Mr. HUMPHREY. That is right.

Mr. CLARK. Is there any accepted standards, 4 or 5 or 7 tons?

Mr. HUMPHREY. Again you have to explain. We get used to talking about coal and coal mining. They are different. They are just as different as eggs and butter. There are little thin seams with hardly any coal up to very thick seams.

Mr. CLARK. You cannot generalize?

Mr. HUMPHREY. No, sir.

Mr. CLARK. Is it several tons a day?

Mr. HUMPHREY. Yes, sir, over-all.

Mr. CLARK. The total increase in wages of the piece workers is $1.20 a day?

Mr. HUMPHREY. That is correct.

Mr. CLARK. So the per ton increase will be $1.20 divided by the tonnage production per man?

Mr. HUMPHREY. That is right, plus overhead and other charges.
Mr. CLARK. Plus 5 cents on the welfare fund.
Mr. HUMPHREY. The direct labor cost is exactly as you stated. In addition to labor costs there are the other items.
Mr. CLARK. Overhead?
Mr. HUMPHREY. Yes, sir.
Mr. CLARK. There is no change made in that?
Mr. HUMPHREY. That is right.
Mr. CLARK. The actual increase in labor cost in these mines will be a fraction of $1.20 per ton?
Mr. HUMPHREY. That is for the labor cost. Now I misspoke myself when I answered too quickly when I said there would be no increase in overhead cost because there will be salary adjustments which will follow.
Mr. CLARK. Your office force and all that will have some effect?
Mr. HUMPHREY. That is right.
Mr. CLARK. To offset that increase of perhaps 25 cents a ton there will be increased efficiency as the operators take charge of their operations instead of having a naval commander in charge?
Mr. HUMPHREY. It will not be the same in hand-loaded mines as in mechanical mines. I would not expect the same efficiency there. In the hand-loaded mine the miners are working as independent contractors. Their hours are determined by what they do themselves. But their immediate loss of tonnage will not be as great as for mechanical. In a mechanized mine you have gangs working together with machinery and equipment and there will be much more immediate loss of tonnage per hour. But there will be later improvement, because of greater productivity through machinery application over a period.
Mr. CLARK. That relates to the relation between your technical managers and the workers who you expect will be more cooperative under the new arrangement, but in addition, do you not think that management contributes a large element of efficiency against management by a government bureaucrat?
Mr. HUMPHREY. Yes.
Mr. CLARK. It seems the small coal miners need far less than 75 cents increase to make up for the increase in cost?
Mr. HUMPHREY. It will all depend in what districts they operate and the tonnage they produce. The small hand-loading mines will have less percentage increase in cost than the mechanized operations at a higher cost base.
Mr. CLARK. One question more. While it is true that you can easily reduce your prices if your experience with cost is satisfactory, do you think there is any way we can retract our steps to revise the price level of the whole American economy?
Mr. HUMPHREY. I think it is timing you are talking about. When you get enough steel, enough coal, when you get enough of these things, these prices are going to begin to come down, and I do not think you can do it in any other conceivable way.
Mr. CLARK. Thank you very much for your courtesy, Mr. Chairman.
The CHAIRMAN. Thank you, Mr. Humphrey.
The committee will now adjourn.
(Whereupon, at 1:05 p. m., the committee adjourned until Wednesday, July 16, 1947, at 10 a. m.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

WEDNESDAY, JULY 16, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to adjournment, in room 357, Senate Office Building, at 10 a. m., Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Watkins, Flanders, O'Mahoney, and Sparkman; Representatives Rich, Huber, and Hart.

Also present: Staff Members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

The first witness is Mr. Leon Henderson.

STATEMENT OF LEON HENDERSON, CHAIRMAN, EXECUTIVE COMMITTEE, AMERICANS FOR DEMOCRATIC ACTION, WASHINGTON, D. C.

Mr. HENDERSON. Mr. Chairman, my name is Leon Henderson. I am chief economist of the Research Institute of America and consulting economist for other organizations and some individuals. My office is at 1026 Seventeenth Street NW., Washington, D. C. I am appearing here today as chairman of the executive committee of Americans for Democratic Action and as one of the members of the A. D. A. Committee on Economic Stability, whose report has been placed before you, and which I trust may be placed in the record.[1]

Accompanying me are three other members of the latter committee: Paul A. Porter, former Price Administrator; Robert R. Nathan, former Deputy Director of the Office of War Mobilization and Reconversion; and Richard V. Gilbert, former economic adviser to the Price Administrator, who join with me in this appearance in support of our recommendation.

Will Davis had expected to be here but had a touch of ptomaine poisoning and is unable to appear. Other members of the committee are unable to be present.

Americans for Democratic Action is a newly formed organization of liberals committed to the principles of freedom and justice and to the democratic process. We are concerned with economic freedom and justice quite as much as with their political counterparts. For

[1] Report of the committee on economic stability, Americans for Democratic Atcion, Washington, D. C., May 15, 1947.

we believe that no nation can preserve and expand the one unless it preserves and expands the other. In the past 20 years we have seen hungry and insecure men putting a heavy discount on freedom. In the whirlpool of depression and mass unemployment, economic opportunity is just the first to get sucked under. Afterward come liberty and the democratic processes.

If we are devoted to freedom, we must feel the responsibility to prevent the kind of depression that engulfed us in the 1930's. If we are to preserve this system of ours, we must make it work. Not just occasionally, not just during periods of boom, but year in and year out. A prime responsibility of government today is the avoidance of depression.

It is characteristic of a boom period that people become convinced that this time prosperity will last indefinitely. You will recall how in the 1920's—and, indeed, down to within a few days of the crash that ushered in the depression—some men spoke of the new era and scorned the notion that American prosperity could falter. We must avoid any such delusion today. For if there is anything clear from our history it is that every boom has been followed by a bust. Nor has anything happened which would give assurance that the cyclical character of business activity has changed. This committee will do well to bear this in mind throughout its proceedings.

Up until the early 1930's there were only a handful of men who believed that government could do anything to head off a depression, to cushion it when it came, or to generate a recovery. While the exact formula of economic stability has not been discovered, we have learned a lot in the past decade and a half. We have learned a lot about what makes our system tick. We know where some of the strategic spots are at which presure must be applied. And we know from experience the effectiveness with which government can bring its powers to bear on those spots.

The Congress itself has helped free the Nation from the myth that we are necessarily the prisoners of blind economic forces. The Employment Act of 1946 consitutes a landmark of national policy. In that statute the Congress established the policy of maintaining a maximum level of production and employment. What is more significant, it went beyond that to provide machinery for democratic economic planning—planning designed to insure the conditions required by our enterprise system in order to achieve the result.

I am one of those who believe that the Congress did not go far enough. When it came to a show-down, the Congress hedged. It was not prepared to commit the full powers of the Federal Government to the maintenance of full production and full employment. Despite this, the statute provides a clean break with the past. Under it, as I have said, the Government of the United States is committed to a policy of maximum employment and to the economic planning without which maximum employment cannot be long sustained. This committee, established under that statute, has a great—indeed, an unprecedented—opportunity to serve the Nation. It has a correspondingly great responsibility to the Congress and to the American people.

It would be a serious blunder to assume that the task of this committee is an easy one. While we have learned a great deal in the past 15 years, there is still a great deal for us to learn. We have learned how to fight our way up from the depths of a depression. We have learned to control inflation in time of war and to manage a war economy vastly better than we ever did before. But we have never yet had the happy experience of stabilizing a boom and avoiding the depression which in the past has invariably followed it.

This committee will need all the help it can get and more. That is why Americans for Democratic Action urged the chairman of this committee to hold hearings at this time. That is why the organization asked a group of economists and former wartime administrators to study the economic situation and to recommend a course of action designed to avoid a recession. And that is why we are appearing before you today.

Let me say right now that we see little immediate danger of a major depression. That danger lies some few years ahead. We do, however, see the danger of a repetition of the collapse which in 1920 and 1921 followed World War I. While that collapse cannot be compared with the grinding depression of 1929-33, it was no picnic. Farm prices were cut in half. Farm income was cut two-thirds. Factory payrolls were cut by nearly one-half, and unemployment shot up 5,000,000. American business as a whole went into the red. It sustained losses of $11,000,000,000 on inventories alone. Bankruptcies and foreclosures appeared by the scores of thousands.

While the collapse lasted only a year and a half and activity made a strong come-back, it was years before our economy again hit its stride. It is imperative that the Federal Government do everything in its power to avoid a repetition of the 1920-21 collapse or anything approaching it. I say this not only because the economic cost and the human cost of such a collapse would be so enormous, but because what is involved is our capacity to manage our own economic affairs. If we can not in 1947 avoid another 1920-21, what chance is there in the fifties to avoid a repetition of the collapse in the thirties?

And I may say that it has never before been so important that we demonstrate to the world our capacity to manage our own economic affairs. For most of the world is looking to us not only for the economic assistance without which reconstruction must be intolerably protracted, but for a demonstration that the critics of our system are wrong in believing that it must by its very nature collapse and leave the field open for some alternative system to take over.

Nothing can so powerfully strengthen our hand in foreign policy as a demonstration that these notions, however logical they may be in the light of our past history of boom and bust, are grievously in error; that ours is not only the most productive and dynamic system on earth but the most reliable as well; that we have learned how to manage it.

Some of my friends tell me that my position on this reflects more courage than judgment. Certainly the past year has not provided any demonstration that as a nation we have learned how to manage our economic affairs. Nor has it provided evidence that those whose responsibility it is to manage those affairs appreciate the importance of that responsibility. For in spite of the magnificent wartime record, the fruits of our stabilization program were thrown to the winds in the hasty abandonment of the wartime controls.

Two years ago we enjoyed an economic situation which, despite minor defects, was sound and solid throughout. Prices and costs were stabilized, profits were generous, and producers knew where they stood. Machinery was available for direction of our resources into those places where they were most needed.

Had the basic wartime controls been continued in effect through the reconversion period, our economy would today be equally solid and sound. Our prices and costs would still be stabilized, and producers would still know where they stood. Our resources would be channelled into the areas where they are most needed. We would have got houses instead of race tracks. The rest of the world would have got steel and machinery it so desperately needed for reconstruction instead of radios, mechanical pencils, and cigarette lighters.

The fact is that when these wartime controls were scrapped we let ourselves in for a wild boom just like that which followed the scrapping of controls after World War I. Last time, we paid for the boom in the collapse of 1920 and 1921. Unless something is done and done promptly, we are going to pay for today's boom the same way. For today, just as in 1920, prices have been allowed to get out of hand. Once again, the price structure is shot through with distortions and imbalances.

What troubles me most, however, about our experience during the past 2 years is not that errors in judgment were made—God knows there were plenty of them and they were serious. What troubles me most is the motivation, the thinking, the philosophy, that led to the scrapping of controls. What the business community wanted and what the Congress gave it was the restoration of the unrestricted operation of supply and demand, before we were ready for free markets, the restoration of business as usual, with all the planlessness and all the irresponsibility that that meant under those circumstances. Canada and England acted more wisely.

Now I know as well as anybody how hard it was to take the wartime controls. And I never advocated their indefinite continuation. I deeply sympathized with the desire on the part of all our people to get rid of those controls at the earliest possible moment. But what we had was a revolt against planning as such—against any planning whatever. It is a sad commentary that at the very time that Congress was debating and enacting the Full Employment Act it was, by the actions it took as well as by the actions it failed to take, moving in a direction precisely opposite to that called for under that statute. Congress said both "yes" and "no" on a matter of highest national policy. At the very time the Congress was establishing the machinery for economic planning it was destroying the barriers which in the stabilization statutes it had built against postwar boom and collapse.

I believe thoughtful people everywhere agree that a mistake was made in scrapping the wartime controls too soon. I believe most people would like to see the Government of the United States begin now, using the machinery established in the Employment Act, to plan for stabilizing prosperity. While our present structure of prices and income is badly out of balance and some business readjustment is unavoidable—readjustment that is bound to hurt—action taken now can cushion the decline and bring about a swift and vigorous recovery. The country looks to this committee for such a plan and such a program.

The people of this country know that this committee is breaking new ground. They know that national planning is not an easy matter and they will be tolerant of honest mistakes. What they will not tolerate, Mr. Chairman, is a refusal to look ahead, refusal to make reasonable plans in the face of impending danger. They will not tolerate a laissez-faire policy of sitting on our hands until the crisis breaks.

It is to help in the development of national economic plans and programs that we have submitted our report on economic stability and that we are here today. As we see the situation, the heart of our present danger lies in the imbalance between our purchasing power and our capacity to produce, an imbalance which has developed since the end of effective price control in June of 1946.

Since that time prices have run away from wages and have cut deeply into the savings and the current purchasing power and into the actual consumption of the great majority of our people. The other side of this development has been, of course, an enormous increase in the volume of profits. All of this has meant a distortion in the Distribution of buying power which has already shown itself in a substantial decline in the physical flow of goods over the counters of our retail stores. Here are the facts.

Between June 1946 and March 1947 consumer prices rose by 17 percent and wholesale prices by 32 percent. There was more inflation during these 9 months than in the entire period of general price control and three to four times as much as in the 37 months from the hold-the-line program of May 1943 to the end of effective price controls in June 1946.

The incomes received by the great majority of our people have failed to keep pace with the rise of prices. As a result, the buying power of all consumers declined 4.4 percent between the second quarter of last year and the first quarter of this year. It declined 12.3 percent between the first quarter of 1945 and the first quarter of 1947. And contrary to statements made yesterday by representatives of the NAM, the buying power of wage and salary earners has been cut even more sharply, by 7.4 percent between the second quarter of 1946 and the first quarter of 1947, and by 24.8 percent between the first quarter of 1945 and the first quarter of 1947. Such a drastic cut in buying power of our people during a period when production available for civilian use has steadily expended is surely enough to give anyone. ground for worry.

The CHAIRMAN. Are you referring there to just wage earners?

Mr. HENDERSON. To the buying power of all wage and salary earners.

The CHAIRMAN. What about farmers?

Mr. HENDERSON. They are included in the buying power of all consumers. At the end of the testimony, Senator, I shall be glad to refer to the tables which have been introduced in the record. They have not been noted here in the script, and if you can——

The CHAIRMAN. I just wanted to clarify what it was. I just wanted to get the clarification whether you were including farmers or not.

Mr. HENDERSON. The other side of the picture is the unprecedented rise in business profits. At the wartime peak, in 1943, corporation profits before taxes amounted to $25,000,000,000. This was 2½ times the total for 1929 and nearly 5 times the average for 1936–1939. The share of the national output represented by corporation profits before taxes doubled during the war. The end of effective price control last June, however, ushered in a period of even more staggering profits.

Senator O'MAHONEY. May I interrupt to ask you if there was any dispute at any time about the accuracy of those figures you have just given?

Mr. HENDERSON. There was some question about the accuracy of the profit forecasts at the time of the so-called Nathan report. The Government material when it was finally published has simply demonstrated the accuacy of the Robert Nathan report and predictions, and if anything he was modestly conservative. He is here, Senator, to be interrogated.

Senator O'MAHONEY. Let us forget the controversial Nathan report. I am talking about the facts and figures you have presented. You say at the wartime peak, in 1943, corporation profits before taxes amounted to $25,000,000,000. Is there any dispute about that?

Mr. HENDERSON. No, sir.

Senator O'MAHONEY. What is the source of those figures?

Mr. HENDERSON. The Department of Commerce. The figures are shown in a table, table 14, I believe.

Senator O'MAHONEY. That gives you the source which is accepted by all economists?

Mr. HENDERSON. That is correct.

Senator O'MAHONEY. And the next sentence: "This was 2½ times the total for 1929 and nearly 5 times the average for 1936–39." Is this statement also based upon the figures of the Department of Commerce?

Mr. HENDERSON. That is correct.

Senator O'MAHONEY. Is there any dispute about the figures for 1929 and the figures for the period 1936–39?

Mr. HENDERSON. No, not at all.

The CHAIRMAN. It may be mentioned that the national economy is twice as large in 1946 as it was in 1929 and has some bearing on the amount of profits.

Mr. HENDERSON. Yes. I think I have some comment on that later.

The CHAIRMAN. The percentage of profit to national income was less in 1946 than it was in 1940 or in 1929.

Mr. HENDERSON. No. I think you will find it about twice as high.

The CHAIRMAN. The percentage of national income.

Mr. HENDERSON. That is right.

The CHAIRMAN. That is more important than the number of dollars.

Senator O'MAHONEY. In any event it is clear that the national income has increased.

The CHAIRMAN. I am speaking of profits after taxes.

Mr. HENDERSON. I think you will find that before taxes they were twice as high. That is my recollection. We will verify that in the course of the testimony.

Senator O'MAHONEY. I wish to remark that the fact that the national income is so very much higher is only a demonstration that a high national income produces high profits, and that, therefore, those who are seeking profits had better concentrate on keeping the national income up rather than on depreciating it.

Mr. HENDERSON. That is correct.

Senator O'MAHONEY. I presume that the chairman agrees?

The CHAIRMAN. I think we all agree.

Senator O'MAHONEY. The trouble is, of course, that so many people that are paying wages and salaries think it is more important to them to reduce wages and salaries and thereby reduce what they think are costs, than it is to keep the market through which they must sell their products.

Mr. HENDERSON. I think as we go forward, Senator, you will find that what I am complaining about most is that the actual rate of increase from a satisfactory level of profits took place at a time when there was a drastic reduction of buying power. This is not a vicious attack on profits as such. It is simply a demonstration that an excessive level of profit has resulted in the drying up of the buying power that is required to keep our system in balance.

The CHAIRMAN. You may proceed.

Do you wish to finish your testimony first?

Mr. HENDERSON. Yes, I would.

The CHAIRMAN. I will try to restrain myself then.

Mr. HENDERSON. I have no objection to interruptions.

In the fourth quarter of 1946, corporation profits were running at the annual rate of $27,000,000,000, and in the first quarter of 1947 even this record was undoubtedly broken. Corporation profits before taxes in the first quarter of 1947 probably ran in excess of $30,000,000,000 a year. That is an estimate of what we have prepared, Senator O'Mahoney, and if anybody wants to take a modest bet, I will see them after the hearing.

I have cited profits before taxes because these measure the spread between prices and costs and show whether they are in reasonable balance, neither so close together that business is starved for profits nor so far apart that the rest of the country is starved for purchasing power.

After taxes, however, the story is even more striking. In 1943, at the peak of the war effort, corporation profits after taxes amounted to $10,000,000,000. This exceeded the 1929 peak and, in spite of the wartime increase in taxes, was 2½ times the 1936–39 average. With the elimination of the excess-profits tax, corporation profits after taxes rose in 1946 to 12.5 billion dollars. And in the last quarter of 1946 they were running at an annual rate of 16.1 billion dollars, 60 percent above the highest wartime year.

The story is clear: profits went up, buying power went down.

It is sometimes said that it is not the absolute level of profits but the relation of profits to investment that is significant. What do the figures show on this? A study made by the OPA covering 2,500 leading industrial corporations shows that these corporations averaged, before taxes, 9.8 percent on their net worth during the period 1936–39.

In the years 1942 to 1944 they averaged over 25 percent. While figures are not available for 1946, the rise of dollar profits in the last quarter of that year above the wartime peak makes it plain that the rate of return on net worth must similarly have risen to a new high, and today undoubtedly exceeds 25 percent on net worth. That again is another ADA estimate.

After taxes, the return on net worth of these corporations averaged 8.1 percent in 1936–39 and 19 percent during the war years when the excess-profits tax was in effect. While the figures are not available to show current performance, the fact that the dollar profits of all corporations rose, after taxes, from an average of $10,000,000,000 during the war to $16,000,000,000 in the last quarter of 1946 strongly suggests that the rate of return on net worth cannot today be far short of 16 percent. Plainly these are swollen profits, swollen far beyond what is required to provide business with adequate incentives and with adequate means to finance the expansion of capacity.

All in all, we have today the most distorted distribution of national purchasing power of which there is any record in our history. And this has already resulted in a substantial decline in the physical volume of retail sales. The peak in the physical volume of retail sales was reached in February 1946. Since then, down to May of this year, there has been a decline of 10 percent, and this in spite of the great expansion in production and sale of durable goods. The physical volume of retail sales of nondurable goods shows an even greater decline, amounting to 17 percent.

Because of the sharp inflation of prices, the dollar volume of retail sales shows a different picture. These sales continued to rise until February of this year, 1 year after the peak had been reached in physical volume. Since that time, however, even these dollar sales have turned down.

This cut in consumption is an ominous matter and a proper cause for grave concern. In our system production cannot long expand while consumption is contracting. For the time being, the cut in consumption has been offset and more than offset by the unparalleled increase of business investment in plant and equipment, in inventories and in housing, and by an unprecedented expansion of exports. But the level of business spending has been highly abnormal and cannot persist indefinitely, particularly in view of the shrinkage of purchasing power in the ultimate markets, upon which investment prospects basically depend.

While no one can say with anything like precision how long the present volume of business spending and exports will continue, there is ample evidence that it rests upon increasingly shaky foundations.

Expenditures to increase inventories have already dropped off sharply from an annual rate of 9.7 billion dollars in the fourth quarter of 1946 to one of 3 billion dollars in the first quarter of this year. In any prior period, this shift by itself could have occasioned recession. With the physical volume of retail sales shrinking and with the dollar volume of inventories at an all-time high, so that business faces very serious inventory losses if prices should decline, a movement to liquidate inventories may develop. Instead of pumping almost 10 billion dollars a year into the bull market to increase inventories, as they did in the last quarter of 1946, businessmen may such 2 to 3 billions a year out of the market through inventory liquidation. I cannot perceive how this committee can ignore this plain warning signal.

Business expenditures for plant and equipment have also been running at unprecedented levels, far above what was required in 1941 and 1942 by business and Government together to tool up this country for all-out war production. But these expenditures have already skimmed the cream off postwar investment opportunities. They appear to have reached their peak, and indications are that business plans call for a decline of these expenditures by the end of the year. The volume of new housing, which was expected to run this year far ahead of last year, is barely equaling last year's record. Even this is surprising in view of the fantastic increase of prices which must before long price the housing industry out of the market.

Finally, exports have contributed powerfully to sustain the level of business activity. These markets have absorbed all the goods which American business and American consumers were unwilling or unable to purchase. But there are clear indications that these markets, too, must be expected to shrink in the very near future. The rise of prices here has bitten deeply into the buying power of other countries and into their supply of dollars. The English loan, at present rates of use, will be exhausted a year earlier than was anticipated. In 1946 our export surplus—that is, the excess of foreign purchases here over our purchases abroad—reached the undreamed-of level of 8.2 billion dollars. In the first quarter of this year even that record was exceeded by 50 percent; our export surplus ran at an annual rate of 12 billion dollars. To finance this excess of purchases, foreign countries have had to deplete their supply of dollars at an accelerating rate. In 1946 they drew upon their gold and other dollar assets to the extent of 2.2 billion dollars and on the loans we have extended to them by 3 billion dollars, a total of 5.2 billion dollars.

In the first quarter of 1947, on the other hand, they were drawing upon their gold, dollar assets, and credits at a rate almost twice as great, 9.6 billion dollars. Unless means are found to replenish the supply of dollars, a sharp drop in the level of our exports in the near future would appear to be unavoidable. Because of the special character of the effect of exports on business activity, an abrupt curtailment of the rate of exporting can touch off disaster. By that special character, I mean, Mr. Chairman, that of course when you have goods for export, the purchasing power remains here and the goods go abroad, you have exaggerated the demand for domestic goods and, therefore, if you have a sharp drop of severe proportions you have a correspondingly decelerated effect.

All this adds up, Mr. Chairman, to make the present situation exceedingly vulnerable. As I said before, it is characteristic in periods of boom to suppose that the boom will last indefinitely. It is characteristic to cite every new record of production, employment, income, and sales as evidence that the fears of recession are groundless. But in the past every boom has developed the seeds of its own destruction. And there is clear evidence that this is no exception. The fact that prices appear to have taken a new upward turn is occasion for greater concern, not less. For if it continues, as it may, it will mean that the collapse when it comes will be that much more painful. Few observers believe that the present level of prices is supportable, and many businessmen are genuinely worried about the height of the prices of their products.

While no one can say when the business recession will strike, it must be clear that we should do everything possible, and do it now to prevent any worsening of the imbalance between prices and wages, between our capacity to produce and our capacity to consume—and that indeed we should gear our policies toward an early correction of the imbalances which prevail today.

To prevent the economic situation from getting any worse and to remedy the basic imbalance, Americans for Democratic Action recommend the following nine-point program:

(1) The orderly scaling down of prices, designed to eliminate about one-half the increase in prices which has occurred since June

1946. For this purpose we recommend the establishment of a Price Adjustment Board, which, working with industry on a voluntary basis, will seek to facilitate orderly and equitable reductions of prices to a stable level.

We do not recommend the reestablishment of statutory price control. Senator Taft, did you hear what I said at that point?

The CHAIRMAN. I think you are afraid of the logic of your own argument.

Mr. HENDERSON. No. As a matter of fact I would have liked nothing better than to explore that with you, even if just for the purpose of resuming the pleasant discussion we had in the early days of the original Price Control Act.

We do not recommend the reestablishment of statutory price control, for in our judgment a Price Adjustment Board, if given clear directives by the Congress and the President and if made up of tough-minded businessmen, and other citizens, could accomplish a great deal without statutory power.

We wish to warn, however, that circumstances might arise in which selective price control, under statutory powers, may become necessary. There is always the possibility, though it is a slim one, that there is one more round left in the inflationary spiral before it collapses. And there is always the possibility, though a fortunately slim one, of a bad harvest.

(2) The orderly increase of wages to incorporate into the wage structure as widely and as rapidly as possible the 15-cent-an-hour increases granted this spring in the steel, electrical, and automotive industries. These wage increases are designed to build up buying power and prevent the drastic decline in prices which might otherwise occur.

We recommend a strong statement on the part of this committee that such wage increases would be beneficial to the economy as a whole. We especially recommend that Government set industry an example by promptly raising the wages and salaries of Government employees.

(3) Raising the floor under wages to 65 cents an hour and within 2 years to 75 cents an hour through amendment of the Fair Labor Standards Act. This amendment is necessary in order to offset the increase in the cost of living since the Fair Labor Standards Act was enacted and to prevent wage-cutting during the forthcoming business adjustment. We urge this committee to support such an amendment and to recommend to State governments that they enact similar legislation covering employees in intrastate commerce.

(4) Amendment of the social-security statutes to increase the scale and duration of unemployment-compensation payments and to extend the system to cover the 14,000,000 employees not now eligible for its benefits. The present scale of compensation and breadth of coverage not only falls far short of the requirements of equity but does not provide even the cushion of purchasing power, come a recession, which the Congress intended when the act was passed.

(5) The immediate enactment of a truly effective rent-control statute. The statute recently enacted falls far short of what is required. Indeed, in view of the desperate shortage of housing and the impossible bargaining position of tenants, this statute permits—in-

deed it invites—landlords to bludgeon their tenants into agreeing to 15-percent rent increases. The present statute will work grave hardship on millions of American families. Furthermore, as families are compelled to scrimp elsewhere in their budget in order to pay the higher rents the result will be the loss of hundreds of millions of dollars of sales in retail stores with repercussions which will be felt throughout the economy.

(6) Preparation for a reduction of taxes specifically designed to build up purchasing power where it will be needed, namely, in the hands of families of low and moderate incomes. For this purpose we recommend raising the individual exemption from its present level of $500 to $700 and decreasing excise taxes by $2,000,000,000 a year. These tax changes should not be made, however, until the other recommended adjustments have been put into effect.

Senator Taft, if I may interpolate, I always understood the excise taxes were put on at the same time that the excess-profits tax was imposed in order that consumers might share in the wartime tax burden. I always thought there was an implicit bargain that when the excess-profits tax was taken off, the exercise tax would be taken off also

The CHAIRMAN. Congress never makes an implicit bargain.

Mr. HENDERSON. Maybe not.

The CHAIRMAN. As far as excise taxes are concerned, I am in favor of taking them off.

Mr. HENDERSON. May I take that for your answer?

The CHAIRMAN. We are trying to reduce personal income taxes, and I think two or three billion in excise taxes are most inequitable and should be removed.

Mr. HENDERSON. That is a very fine statement.

The Congress should either postpone action until requested by the President, or, if it chooses to act now, should empower the President, acting in consultation with his Council of Economic Advisers, to determine the effective date. Flexibility of timing is extremely desirable if fiscal policy is to be of maximum usefulness in stabilizing markets.

(7) Revitalization of the veterans' emergency housing program. This should include vigorous action by the Government to reduce the costs of conventional building and to encourage and stimulate the development of factory-built housing. The heart of the program, however, should be a Federal guaranty that 1½ million homes will be produced each year.

During the war we set our targets for planes and guns and tanks and ships in terms of what was needed. And then the Government got them produced. That is the way housing, too, must be tackled.

There is a sorry contrast between our ability to build planes and tanks for our boys to fight in—and, if need be, die in—and our excuses for not building homes for them to come home to and live in. The time for promises has long since run out. Action is what we need in housing—action now.

The Federal Government should announce itself ready to contract for the production of whatever number of houses, in addition to those constructed by private builders, may be necessary to meet the goal of a million and a half homes per year. Of this total, one-third, or 500,000 homes, should be constructed for rental to families of low and moderate incomes at rentals they can afford to pay. This should be public housing, constructed by the local public-housing authorities with Federal aid.

(8) Prompt increase of the lending authority of the Export-Import Bank by $5,000,000,000. This recommendation is based primarily, not upon the true and complete needs of foreign countries for our assistance, but simply to prevent the decline in American exports that is otherwise in prospect. Since our report was prepared, however, Secretary Marshall has made his historic proposal which for the first time has opened the way for a program to rebuild Europe, not merely to continue shoring up her economy with relief measures. This program will require time to work out. Meanwhile the world needs concrete assurance that Secretary Marshall speaks not for the Administration alone, but for the Congress as well. The immediate increase of $5,000,000,000 on the trading authority of the Export-Import Bank can provide this assurance, while at the same time it prevents any slackening of American exports pending development of the program. And I would say, Mr. Chairman, by way of interpolation, that the interpretation I place on this statement is that there may not be any special session of Congress; and, considering Europe's needs, I would more firmly urge——

The Chairman. Whose statement was that?

Mr. Henderson. It was President Truman. He made the statement about 2 weeks ago. Well, there was the picture of the giants in American political life emerging from the White House, and the caption on it indicated there was to be no special session.

The Chairman. The President so stated in a press interview about a week ago.

Mr. Henderson. In the light of that, and particularly the propaganda against the Marshall plan, it seems really highly desirable that some commitments he made of a substantial character, and one good place to make it is the Export-Import Bank.

Mr. Rich. Mr. Henderson, how about loaning it through the World Bank?

Mr. Henderson. I think you can lend through the World Bank also, but as I recall, the standards of the World Bank have been considerably stiffened in recent months, and the needs of Europe are going to require some changes, it seems to me.

Mr. Rich. It certainly would be wise to do so through either one of the two banks mentioned, or both, rather than making gifts without any thought of having any return, from the American taxpayer.

Mr. Henderson. That is correct. I am a strong supporter of the World Bank. I was recommending, however, as far as the American assurance goes, that we do stand in a general position of supporting the reconstruction of Europe, because if the Congress does adjourn, and the world feels that it will not reconvene until the first of next year, there will be a feeling that we have avoided the question of congressional support for the so-called Marshall doctrine, and in my opinion, while you can help through the World Bank, the Export-Import Bank can and should be used in addition.

Mr. Rich. Is it not a fact the United States has already agreed with the Bretton Woods Bank, and it is up to our Congress to do something, without the United States standing by and doing everything that every nation in the world wants, without any assistance from any other country?

Mr. HENDERSON. Without accepting everything that you have said, Mr. Congressman, I think it is clear if we did go into the World Bank, where we have been the principal financer——

Mr. RICH (interposing). I was wondering whether you agreed to that, or whether you think the United States should be a stand-by to do everything these countries want without any assistance from any of them themselves?

Mr. HENDERSON. Oh, no. Oh, no. As a matter of fact I think the London economist's statement a couple of weeks back that one of the big things called for by the Paris Conference was an organization of the weaker European countries themselves by interchanging goods and supplies, and he suggested, by acting together, in some sort of the loose-jointed meeting of these, there could be a revival of the economic forces which have been held back by the internal conditions of each country, and I think you will get a very satisfactory exchange.

Mr. RICH. I am very glad to have that statement because so many people think we should continue to pour money into these foreign countries without them helping themselves. We want to help them if possible, but we do not want to finance them exclusively.

Mr. HENDERSON. We have more than half of the world's productive capacity and more than two-thirds of the world's economy. We can be doing a lot of financing.

Mr. RICH. Notwithstanding we have that great productive capacity today, we cannot support the whole world.

Mr. HENDERSON. That is right.

Senator SPARKMAN. The Marshall plan contemplates the European nations helping themselves in order to get help from us, and as advocating the $5,000,000,000 lending power to the Export-Import Bank, so as to hold the line in our ability to maintain our export beyond the estimates of the nations supporting the Marshall plan.

Mr. HENDERSON. I made it clear we were running at the rate of about $12,000,000,000 in the export balance in the first quarter.

Now the amount of funds that are available for the continuation of anything like that rate are remarkably small, and you will begin to get a curtailment in exports before very long.

Canada has felt it necessary to limit travel. There is no reason why Export-Import loans could not later be refinanced by the World Bank. I feel that we run a great danger of a drop in exports, which might have serious effects on our level of business activity. If funds are not made available we might get into a recession through this means alone.

Mr. RICH. And you feel a serious and too rapid break in exports might precipitate that situation?

Mr. HENDERSON. That is correct.

(9) On the farm front, strict adherence to the wartime commitment to support farm prices through 1948 and legislation to continue the program beyond that time. While the program needs to be modified in detail to make it work better, the full intent and protection of the wartime commitment must be honored. Furthermore, school-lunch programs should be expanded to provide every child in the country at least one square meal a day, and the Aiken food-allotment plan should be enacted to provide an adequate diet for every American

family. These measures will at the same time both protect the health and strength of our people and assure the farmers a market at fair prices for everything they can produce.

I might say for my own part I have been really disturbed because we have not had a real food-conservation program. I would certainly hope the Harriman committee would look into the possibilities of the wiser use of the great abundance of food we have. That is a personal matter with me.

Americans for Democratic Action do not put forward this program as a long-time plan for stabilizing the economy. Such a program, when it comes, must deal with monopoly and concentration, with scientific taxation, river-valley developments, and the like.

These nine planks constitute our program to head off a recession. While this committee may not agree with every element of the program or of the reasoning upon which it is based, it does have an obligation under the statute to come forth with a program. We hope that on the basis of the presentation here this morning the committee will find itself in sufficient agreement with our program that many of its elements will be incorporated into that which the committee adopts. We urge that both the committee and the Congress act before adjournment.

The CHAIRMAN. Mr. Henderson, taking the whole effect of your paper, I take it you are predicting a serious depression or recession, not a serious depression, unless there is a substantial change in public policy, changes not likely to occur in the next 6 months.

Mr. HENDERSON. Yes; that is correct.

The CHAIRMAN. I want to get your exact reasons as to the exact cause why we face a depression.

You feel there is a reduced purchasing power on the part of the American people which results solely from disproportionate higher prices. That is the whole theory?

Mr. HENDERSON. It is imbalance of the prices, wages, and profits. I think I could restate the position in summary form.

The CHAIRMAN. Do that.

Mr. HENDERSON. In the first place, the cyclical character of business has not really changed yet, although, as I pointed out twice, people get lulled into a sense of false security. People get to talking about new eras. They talk about having attained a new plateau just as they did in the twenties. As was pointed out to this committee by John Williams, the cyclical character of our economy is still there, so that we are obviously faced with the certainty of a business turn-down of some kind at some time or other. It is also true that every war in the past has been characterized by inflation during the war and postwar collapse.

Now, what are the reasons for believing that we face a drop in the near future? I am relying on an actual study of economic developments rather than upon what might be called straight almanac thinking. I am concerned, in other words, not just because history is likely to repeat itself but because of the objective economic facts which indicate that since price control was abandoned we have had an increasing imbalance between purchasing power and output. This imbalance has already resulted in a substantial reduction in the physical volume of goods sold at retail.

The CHAIRMAN. Can you prove that? We have had evidence that it is true in some fields. In other fields it is not true at all. In many fields, we can not possibly keep up with the demand. There is much more purchasing power for a great many things than supply.

Mr. HENDERSON. In selected fields, that is absolutely true.

The CHAIRMAN. Is not, therefore, the stop in buying simply because the people prefer to keep their money for better values or something that is not available now?

Mr. HENDERSON. That is of course partially true. At many levels of income, particularly of low and moderate income, families have had to use their entire purchasing power to try to maintain their level of consumption. Even so, many of them have been unsuccessful. Even after drawing on their savings they have still been obliged to cut their real consumption substantially. The result for the entire country has been a cut of some 10 percent in real consumption, that is, the goods and services actually consumed.

The CHAIRMAN. I question if there is any reduction in purchasing power, even of wage earners. Why does not the other distribution of income represent purchasing power?

Mr. HENDERSON. Oh, it does.

The CHAIRMAN. Why does not the increase of the farmer's share give an increased purchasing power?

Mr. HENDERSON. It does.

The CHAIRMAN. Why are not these earnings today being put back into new capital investments? There may be a socially unwise distribution of income, but the total income is there and the total purchasing power is there, and I cannot see the basis for the argument on which your entire paper is based.

Mr. HENDERSON. I would like to ask Mr. Gilbert to give you in compact form that information and tell you about these tables which are presented.

Mr. GILBERT. It is undoubtedly true that in dollar terms the volume of purchasing power is higher than at any time in our history. The actual dollar flow of spending is greater than it has ever been. That is the basic reason for the rise in prices.

That is true all up and down the line for every segment of the economy. It is true of every segment but the Government, whose purchases have dropped off sharply in the last year and a half.

Because of the rise of prices, however, the total dollars spent by consumers are yielding them fewer goods. The actual volume—the physical volume—of goods and services consumed in this country has declined since June of last year. These goods squeezed out of consumption by the rise of prices, have been absorbed in large part by business in the form of larger inventories.

This decline in real consumption and therefore in the volume of production and employment required to produce the goods consumed has not, however, resulted in a decrease in total employment and production. The reason is that business spending for capital formation has increased enormously, offsetting, and more than offsetting, the decline in real consumption. This increase in business spending, however, is highly abnormal and cannot be expected to last very much longer. For one thing, expenditures for plant and equipment have been running at levels far above what was required in 1941 and 1942 to tool up the American economy for all-out war production. There is good reason, therefore, to believe that the present rate of expenditures for plant and equipment is rapidly working off the backlog of plant and equipment needs built up during the war so that the level of plant and equipment expenditures is likely to drop off substantially from present levels before very long.

In the second place, business has been spending enormous sums for inventories, in part to make good deficiencies of inventories developed during the war in the field of nondurable goods, but mostly to fill the pipe lines of production and distribution in the consumer durable goods area of the economy. There is clear evidence that the restocking episode is now about finished. Hereafter expenditures for inventory accumulation will be only a small fraction of what was spent in 1946. Indeed, we may run into a period of inventory liquidation.

And in the third place, the export balance has been running at extremely high levels because of the desperate needs of Europe and other areas. While these needs are still enormous, the supply of dollars available to these countries with which to finance their purchases in this country is being rapidly depleted. In this case, too, therefore, there is reason to believe that a sharp drop in business spending is not far distant.

Finally, and in my judgment most important, is the fact that business spending for expansion of capacity cannot be long continued in the face of declining real consumption. Even if the volume of business spending had not been highly abnormal because of wartime backlogs and reconversion needs, in the very nature of the case temporary in character, the squeeze on real consumption would still be sufficient ground for believing that business expenditures for increased capacity cannot be sustained.

Our conclusion, Mr. Chairman, is that in view of the present imbalance between wages on the one hand and prices and profits on the other, the level of business spending is likely to drop off in the near future, precipitating us into a sharp recession of business activity.

The CHAIRMAN. We have been told by two rather impressive witnesses recently that the Nation should invest at least 20 percent of its income in new capital goods per annum. I cannot see why that is not just as important a factor. In fact, it is just as important to have the money spent on new capital. It seems your whole ADA report greatly overemphasizes——

Mr. GILBERT (interposing). Let me develop that if I may, Senator.

The CHAIRMAN. Yes.

Mr. GILBERT. First, consider table No. 5. That table shows the index of total income payments, that is, wages and salaries, interest, dividends, the income of farmers, and of nonincorporated businesses. When that table, however, is adjusted for changes in the cost of living you find that the real buying power of total income payments which in the first quarter of this year was 60 percent above the prewar level, that is, the third quarter of 1939——

The CHAIRMAN. Wait a minute. I do not get that.

Mr. GILBERT. Look at the lower half of column 1. Notice that the increase in real buying power of all consumers since the outbreak of the war has been 60 percent.

No one contends that the real consumption of this country has been reduced to anywhere near what it was before the war. On the other hand, since the first quarter of 1945, there has been a substantial drop in the real buying power of consumers of the Nation as a whole, a drop of 12.3 percent.

The CHAIRMAN. You mean they got less for their money?

Mr. GILBERT. That is right. With our productive expanding and a smaller quantity of physical goods going to the consumer, a larger quantity of our physical production went to business.

The CHAIRMAN. That is a question of degree.

Mr. GILBERT. I think we can show you some reason for some grave concern.

If you will now look at table 17, you will find the official figures published by the Department of Commerce covering the gross national product and its major components. Notice, however, that the estimates for the first half of the year are ADA estimates. Now looking particularly at the material shown under the heading "Private gross capital formation," you will notice that in the first quarter of 1945 private gross capital formation was running at an annual rate of $3,600,000,000. At the present time it is running at an annual rate of almost $40,000,000,000.

The CHAIRMAN. Throughout the whole history of the United States the course of capital formation has always been 20 percent until the depression days. I don't know whether it is correct, but it was offered by the National Association of Manufacturers and by Mr. Upgren, of Minnesota.

Mr. GILBERT. Throughout our history we have achieved a very high level of capital formation in every period of boom. However, that high level of capital formation, invariably coupled with a distortion of the distribution of income which resulted in a drying up of buying power of consumers, always brought the boom to an end. The reason for this is not far to seek. A high level of capital formation with resulting expansion of productive capacity cannot long continue in the face of a stable or declining level of consumption.

Now the figures in table 17 covering the movement of private gross capital formation are very significant. They show an extremely rapid increase in business spending for inventories, in the export surplus, and in business expenditures for plant and equipment. These rates of expenditures on these three fronts are clearly abnormal and cannot be expected to continue indefinitely.

In the case of inventories, expenditures for accumulation of inventories increased from about zero after VJ-day to an annual rate of $10,000,000,000 per annum in the last quarter of 1946. This is the highest rate of inventory accumulation on record. This level of expenditures was the result, as I have pointed out, of the major effort required by the durable consumers' good industries to get rolling. During the war, production of durable consumers' goods was almost entirely eliminated. As a result, once the war ended it was necessary to begin from scratch to build up the flow of raw materials, the flow of parts and subassemblies, and to fill the pipe lines of distribution. All this had to be done before goods could begin to move into actual consumption.

The figures, however, clearly indicate that the restocking of goods is now complete. Whereas inventories were being accumulated at the rate of $10,000,000,000 per annum in the last quarter of 1946, by May of this year the rate of accumulation had entirely disappeared. Indeed, it is probable that some liquidation of inventories actually occurred in that month. It should be clear, therefore, that business spending on this account has already dropped off by $10,000,000,000.

It is significant, Mr. Chairman, that the highest rate of inventory accumulation we have ever had before is about $4,000,000,000 per year and that the end of such inventory accumulation has always resulted in a recession.

The CHAIRMAN. The highest production we ever reached in the past?

Mr. GILBERT. Not the highest production—the highest rate of inventory accumulation. The significant thing is that when business stops accumulating inventories, that means a decrease in business spending which cuts the market for the national output.

The CHAIRMAN. But we are producing more goods and, therefore, more purchasing power all the time. It seems to me that you have a highly tenuous argument.

Mr. GILBERT. If there is one economic fact on which almost every economist agrees, it is that when business is building up inventories it is paying out incomes to produce goods while at the same time it is taking off the market a portion of the goods produced. This has a very stimulating effect on the economy. On the other hand, when business is liquidating inventories, it is obviously also cutting down orders to the manufacturer. The result is that business is putting goods into the market at the same time that it is decreasing employment and therefore the flow of wages and other incomes to consumers. The result is depressing to the entire economy.

The CHAIRMAN. Is there any evidence that business inventories are excessive?

Mr. GILBERT. Yes, sir. The fact that we have cut the accumulation from an annual rate of $10,000,000,000 in the last quarter of 1946 to an annual rate of $3,000,000,000 in the first quarter of this year and have apparently eliminated accumulation altogether in May.

We have built up the total inventories of all items as well as of the durable items in particular.

The CHAIRMAN. You have built up an inventory much larger?

Mr. GILBERT. That is true.

The CHAIRMAN. You have not filled up the pipe line yet?

Mr. GILBERT. It is not filled in certain directions and overfilled in others.

The CHAIRMAN. Some things are in ample supply and some are short.

Mr. GILBERT. But the over-all result is that business was spending at the rate of $10,000,000,000 per annum to increase inventories last year while in May it was actually liquiding inventories.

The CHAIRMAN. We have had testimony that in the last 30 days it has begun to build up again. It was held back for a while and it is building up again.

Mr. GILBERT. It is true that in certain areas inventory accumulation is still going on. Another test of the prospects for inventory accumulation is to be found in the relationship of inventories to sales.

Over the years, there is a normal relationship between inventory and sales. While inventories sometimes rise above and sometimes fall below that relationship, they tend to come back into line with it. Two years ago inventories were well below the relationship. Today, however, because of the rapid accumulation inventories are above the normal relationship to sales. The evidence indicates that any increase of inventories beyond the present relationship of sales will only set the stage for liquidation.

The CHAIRMAN (interposing). Your conclusion is that private corporation capital formation is going to decrease?

Mr. GILBERT. Yes, sir.

The CHAIRMAN. That is a threat to economy?

Mr. GILBERT. That is right. And for the basic reason that business does not expand its capacity unless it has the assurance that there is a market for its production.

The CHAIRMAN. I think it was a mistake of the New Deal from the beginning that consumer purchasing power is the solution. I think it is increased production.

Mr. GILBERT. Do not misunderstand our position. Our position is that what is required is the proper balance between business spending and consumer spending. Our position is they must expand together; that business spending will not continue for any length of time if they do not. It is a fact that the two are moving in opposite directions; that is the basis of our concern.

The CHAIRMAN. The money is being spent, and you do not think it will go on being spent.

Mr. HENDERSON. That is right.

The CHAIRMAN. I suggest that is the case. We do not know about it until it begins to happen.

Mr. HENDERSON. When you have a change, Senator, within 6 months of upwards of $7,000,000,000 in inventory spending, you know that business activity and production and purchasing power is bound to decrease.

The CHAIRMAN. You think in the first half of 1947 we had the largest private corporation capital formation we ever had?

Mr. HENDERSON. And it came from an increase——

The CHAIRMAN (interposing). Now, is it going to continue?

Mr. HENDERSON. I do not know.

The CHAIRMAN. I did not think you did, with all due respect.

Mr. HENDERSON. It came from an increase in net exports.

Mr. GILBERT. May I say this: The newspapers have been full of this inventory problem for the past 9 months.

The CHAIRMAN. They were very much concerned several months ago about those things.

Mr. GILBERT. The department stores know whether they are holding more goods than is called for by their sales. They cut their purchases for a very good reason.

The CHAIRMAN. Getting a price change is what we want, and I think the decrease in purchasing power is due to the fact people felt psychologically that prices were too high and they were not going to buy.

Mr. GILBERT. There has not been any evidence of a decline in prices. The price indexes do not show that.

The CHAIRMAN. There are a good many things where there are decreases in prices, the decrease in price in soft goods and women's clothes being quite substantial.

Mr. GILBERT. There are two further points to which I think you ought to give some attention. They have to do with the volume of net exports and business expenditures for plant and equipment. Net exports are the excess of what other countries are buying here over what we are buying abroad. In the period after World War I we had a net surplus of a couple billion dollars. Today export surplus is running at an annual rate of $13,000,000,000.

The CHAIRMAN. I agree. What will be the result of cutting it off? Primarily a reduction in prices, whereupon purchasing power will increase, which is exactly——

Mr. GILBERT (interposing). But, Senator, if the export balance drops off by 4 or 5 billion dollars, that, taken in conjunction with the decrease in business spending for inventories, means a very substantial drop in total business spending. What spending will be available to offset this cut in business spending? That is the real question, because if no offset to this cut in business can be found, the result must be a decrease in total spending; that is, a decrease in total markets, which must result in a decrease in production, employment, and business activity generally.

The CHAIRMAN. I think you are using an abnormal rate. I do not think that we can hope to maintain these abnormal factors.

Mr. GILBERT. The question we have raised is whether we can make that adjustment without collapse, whether we can make it without serious damage to the economy, whether we have to go through another 1920 and 1921 collapse.

The CHAIRMAN. Your remedy is to raise wages promptly?

Mr. GILBERT. No. That is only part of the remedy we propose.

The CHAIRMAN. Reduce unemployment and raise wages?

Mr. HENDERSON. The first element of our program is an orderly reduction of prices amounting to about half of the rise in prices since June of 1946. We think it extremely important to avoid any greater decrease in prices than this because such a decrease in prices might precipitate a real collapse similar to that which we had in 1920 and 1921. To avoid such a collapse we propose that the price reductions be made in an orderly fashion under governmental guidance——

The CHAIRMAN (interposing). I suggest that there is no imbalance between wages and profits. Take the average take-home pay of the factory workers of $23.86 in 1939 compared to $47.50 today—a 100-percent increase of the average take-home pay of the factory workers.

At the same time, the increase in cost of living is only 56 percent, so there is at least a 20 percent——

Mr. GILBERT (interposing). The test of balance, Senator, is whether goods are being taken off the market.

The CHAIRMAN. I am suggesting that wages have gone up on the whole more than retail prices. Wholesale prices have gone up 90 percent and they have not gone up since the 1st of March. There is no further evidence of increase.

I cannot understand the basis on which to say there is an imbalance between the income of the ordinary worker and what he has to spend.

Mr. GILBERT. The answer, I think, is this: Today total production is running between 70 and 75 percent above the levels of 1939, and our capacity to produce shows an even greater increase. The real buying power of all wage earners, on the other hand, is today only 60 percent greater than it was in 1939. Total wages have not increased enough to match the increase in production. That is the heart of the trouble.

The CHAIRMAN. And our total wages have increased 100 percent?

Mr. GILBERT. No; those figures are shown on tables 4 and 5.

The CHAIRMAN. You have here a presently tremendous economy. Everybody has more money than they ever had before, and I would say wages and salaries——

Mr. GILBERT. Total wages and salaries, adjusted for the increase in the cost of living, have gone up 58.2 percent since the third quarter of 1939.

The CHAIRMAN. How much?

Mr. GILBERT. 58.2 percent.

The CHAIRMAN. Is that correct for increases in the cost of living?

Mr. GILBERT. Yes; I am trying to show that.

The CHAIRMAN. In a 60-percent increase in all wages?

Mr. GILBERT. That is right. And that covers the increase in total employment and the increase in the length of the working week as well as the increase in wage rate. We have had a 60.7 percent increase in the buying power of all consumers, farmers, and all other groups, as well as wage earners, over the same period. As against this the increase in total production is 75 percent and production is moving steadily into a higher ground. The question is, Who is going to buy this increased output? And if there is no one to buy it on a continuous basis, who is going to produce it?

The CHAIRMAN. I do not see how we can maintain the present output. You are giving away about 5 or 10 percent of your output for nothing.

Mr. GILBERT. There are two things I'd like to say to that, Mr. Chairman. In the first place, if we do not maintain our present output, that means a decrease in the national well-being. In the second place, the decrease of output may be so severe as to precipitate a general recession falling with brutal impact upon wage earners, farmers, and businessmen alike.

The CHAIRMAN. Mr. Bowles testified wages had gone up 62 percent and retail prices only 34 percent. Whether it was wise or not, many more increases were permitted.

Mr. GILBERT. Senator, when you quote these figures you have to be careful to take into account the cost of living and increase in taxes.

Please turn to table 13. In that table, based on Bureau of Labor Statistics data, you can see the changes in net spendable weekly earnings, and weekly earnings after taxes and adjusted for changes in the cost of living. The increase for a single worker, that is, a worker without dependents, since August 1939 has been only 9.3 percent. In other words, what a single worker in manufacturing has to live on has increased only 9.3 percent over a period of almost 8 years.

The CHAIRMAN. In real wages?

Mr. GILBERT. In the wages he takes home and can spend to support himself.

The CHAIRMAN. A family of four?

Mr. GILBERT. For a family of four—that is, in the case of a worker with three dependents who can take advantage of the exemptions—the increase has been 23.8 percent.

The CHAIRMAN. That is practically without any increase in productivity. I think there is some evidence of productivity catching up.

Mr. GILBERT. As far as productivity is concerned, clean evidence is not yet available. It is significant, however, that in each of the 3 years following 1919, output per man-hour in manufacturing went up by 10 percent each year. I shall be very much surprised if the figures when they finally become available do not show as great a rate of increase in productivity following World War II——.

The CHAIRMAN (interposing). We have had testimony that at the end of this war productivity of the men was way down——

Mr. GILBERT. I should like if I might——

The CHAIRMAN. And would not increase until they got new machines.

Mr. GILBERT. I disagree with that. Output per man-hour has been increasing right along. We can't show it because the figures are not yet available.

I should like, if I may, to spend a minute or two on the developments in the twenties. I do not believe that, except for John Williams' testimony, anything was presented to this committee covering that period. Between 1924 and 1929, output per man-hour in manufacturing went up 24 percent. During that same period wages went up by only 3 percent. The increased output per man-hour and the decreased labor costs per unit of production was not reflected in a decrease in prices, which remained at about the same level throughout the period. The result was an increase of about 57 percent in corporation profits. And the same situation was true in the fields of transportation and the utilities. All through the economy there was a growing distortion in the distribution of buying power. Wages were not increased in proportion to output. Profits were inflated. The result was the collapse of 1929. In spite of an extremely favorable climate for business, a very low level of taxes, and a fiscal policy which yielded a surplus all through the period, the boom of the twenties ended in the smash-up of 1929. I can think of no better demonstration of the necessity of keeping purchasing power in balance with output and wages in balance with prices and profits.

The CHAIRMAN. I agree to that. I say there is no evidence today that prices are out of line with wages.

Mr. GILBERT. But, as a matter of fact——

The CHAIRMAN. The table you referred to shows wages have increased 20 percent.

Mr. GILBERT. That was quite true——

The CHAIRMAN. It was not true after the last war. Prices were way down proportionately?

Mr. GILBERT. Actually the real wages from 1924 to 1929, as I am——

The CHAIRMAN (interposing). I am talking about 1920 and 1921.

Mr. GILBERT. We had the same frantic effort to build up inventories, part necessary and part unnecessary. We had the same shortage of goods. We had the same disparity between wages and prices.

The CHAIRMAN. Let me suggest some very essential differences. In the first place, wages did not go up after World War I as they have now. The whole imbalance was not present. Prices were somewhat out of proportion to wages.

Mr. GILBERT. The rise in prices has been a little greater.

The CHAIRMAN. But not compared to prewar.

Senator SPARKMAN. May I ask a question at that point?

The CHAIRMAN. Yes.

Senator SPARKMAN. The other day we had a witness before the committee—if I remember correctly, it was Mr. Schmidt, director of research for the United States Chamber of Commerce. He presented a series of authorities in which he compared the conditions prevailing following the First World War and conditions prevailing now, and he called our attention to the fact that they were almost exactly parallel, but doubt was expressed that we were going to have the sudden collapse we had following World War I because of one thing only, and that was that we were now enjoying the fruits of a quasi-war economy in which we are still living. Do you agree with that?

Mr. GILBERT. No; I do not.

The CHAIRMAN. Are not our exports much greater today than they were in the period after the First World War?

Mr. GILBERT. Those exports collapsed in 1920 even though the needs of Europe were far from being met.

Today the countries of the world other than the United States have gold and dollar assets of approximately $20,000,000,000. That represents their total reserves upon which their currency and credit are based. During the first quarter of this year they were using up those reserves at the rate of $10,000,000,000 per annum. And during the second quarter they were using up their reserves at an even higher rate. Just consider what would happen to business sentiment in this country if we were using up our reserves at the rate of 50 percent per annum. With so drastic a rate of depletion of gold and dollar balances our exports could be choked off at almost any time. In this connection I should like to call your attention to the fact that all but three of the Latin-American countries have already introduced restrictions on imports. And Canada has imposed restrictions——

The CHAIRMAN (interposing). That is where I do not agree. In the first place this war lasted much longer. There was more suffering and privation which created a greater backlog of demand than the last war. I do not think that can be disputed.

In the second place we are going ahead with the European program.

In the third place we are now at a point 2 years after VJ-day. Two years after 1918 they were coming out of the depression rather than facing any question of going into it.

Mr. GILBERT. No, Mr. Chairman. Two years after the armistice in World War I the collapse had run only 2 or 3 months.

The CHAIRMAN. The break was when?

Mr. GILBERT. The break was in May of 1920.

The CHAIRMAN. Which was 18 months after the end of the war.

Mr. GILBERT. That is right.

The CHAIRMAN. Eighteen months after last February——

Mr. GILBERT (interposing). Take VJ-day rather than VE-day.

The CHAIRMAN. September 1945.

Mr. GILBERT. We are approaching 22 months. That is why we——

The CHAIRMAN. I am suggesting there is another lack of parallel. I do not think the two conditions are parallel at all.

Mr. GILBERT. Mr. Senator, we do not contend that a recession is inevitable. There are favorable as well as unfavorable elements in the picture. We shall have a recession only if nothing is done to diminish the unfavorable factors and to encourage the favorable ones.

Mr. HENDERSON. Mr. Chairman, I had not given you the full reason for our feeling that we are in danger of a recession. Assuming anything that we want to as to what have been the changes in prices and wages, we have an economy here whose level of production and price has been supported by some very, very extraordinary high and inflationary impacts.

The CHAIRMAN. There is no question if you take the purchasing power saved over from the war, the demand is extraordinary.

Mr. HENDERSON. It is really concentrated on those goods we did not make during the war. We have got, as we have shown here, an enormous change in exports, with the possibility of an abrupt change. We have had a change in net accumulation of inventory and reduction in physical volume of retail sales.

Our position is that when these business expenditures drop off you are bound to have a receession in production, with the possibility of a severe break in the price level unless something is done to build up the purchasing power of our people.

The CHAIRMAN. I suggest that currently things are too high and we are forcing our prices up largely because we are trying to do too much. Some recession may be a good thing, but I do not want it to go on down so fast it becomes dangerous.

Mr. HENDERSON. Our suggestion is that the committee has the power to do what should be done and we have made a number of suggestions.

The CHAIRMAN. You suggest the way to do it is increase wages, and you suggest you can increase wages without increasing prices. You think you can?

Mr. HENDERSON. Yes; I think the whole record of profits and the whole record of price levels shows it could have been done. Given a sufficient measure of control, I think we could have accomplished wage increases with no increase or a small increase in price level.

The CHAIRMAN. I had a discussion with you back in 1941, Mr. Henderson, in which we urged that upon you without avail. You remember it was in the first Price Control Act?

Mr. HENDERSON. My position was it did not belong in the Price Control Act, and immediately following passage of the bill I asked and made a sound argument within the administration, for wage control. That was the promise I made to the committee which I kept, and if you are interested in that testimony before the War Labor Board I will be glad to furnish it.

The CHAIRMAN. Let me right there refer to what you said in 1941:

> I think that Senator Taft has put his finger on it. I must confess that frankly. From the resolutions that I have seen adopted by a number of labor groups, I felt that we would have opposition if anything of that nature were contained in the bill. My discussions, even in the early days, with the President always contemplated that when there was a national labor policy—and it was always recognized that there was to be one—the matter of inflationary wages would be taken up under that category, and that the President, as you know, in setting up the Defense Administration, appointed not only a price commissioner, but an Associate Director General of the OPM with the specific job of looking after labor matters.

Mr. HENDERSON. That was so and the result was the Little Steel formula. Immediately after the passage of the act I asked permission to go to the War Labor Board and present them with the facts regarding the necessity for the stabilization of a wage program.

The CHAIRMAN. For the 2 years, 1943 and 1945, wages went up about 10 percent and you held prices.

You said this in 1942:

> Wage increases, when not accompanied by a corresponding increase in production, are inflationary for two principal reasons: First, they increase labor costs, and thus cause pressure against price ceilings.

Now you are recommending that we agree, or rather that we cure the present situation by further increases in wages?

Mr. HENDERSON. The volume of goods available for consumers right now at present rates of production is vastly greater than what was available at that time. I say that at that time it was necessary to take goods away from the general public in order to make them available for the war effort. Today the situation is very different. Today our problem is purchasing power below what is required to take off the market the output of our farms and factories.

The CHAIRMAN. In the long run increased wage rates are bound to increase prices?

Mr. HENDERSON. No; not if you have rise in productivity.

The CHAIRMAN. I fully agree about a rise in productivity but I do not think you can assume anything of the kind will occur.

Mr. HENDERSON. Mr. Chairman, if you will look at the rate of production of automobiles, and the sales and the number of men employed today as compared to a year ago you will find that output per man-hour has increased greatly.

The CHAIRMAN (interposing). I wish you would give us those figures.

Mr. HENDERSON. I think part of them have been shut off by the cut in the Bureau of Labor Statistics budget.

The CHAIRMAN. Now, do you think there is any increase in the productivity of building labor?

Mr. HENDERSON. By the way, I did not see all of General Wood's testimony, but I would like to see this committee endorse an investigation in the building industry.

The CHAIRMAN. He told us it was worse.

Mr. HENDERSON. I agree. I think it is one of the stinking shames and it is a challenge, and one that properly lies right on your doorstep.

The CHAIRMAN. I might say we have a resolution to do that very thing by Senator McCarthy.

Mr. HENDERSON. I would be happy to be a sustaining witness for you.

The CHAIRMAN. I will cease my questions and let the other Senators have a chance. I am afraid I will have to be on the floor in a little while.

Mr. HENDERSON. There is one place where I can see an enormous increase in demand to make up for the drop in exports which we expect and the drop of inventory accumulation which has already occurred. I refer specifically to construction and the building industry.

The CHAIRMAN. The argument seems to be that the wages and salaries and the total national income decreased last year. That might be due to purchasing power falling off, but the purchasing power of farmers increased and they are consumers—I suggest even the corporate profits are spendable income and are being spent, so I cannot see where we are losing any purchasing power, except to the extent Government is going to have a surplus of 6 or 7 billion and put it away.

Mr. HENDERSON. My own feeling is that that cash surplus has been a very important factor which prevented a real and complete runaway of prices.

The CHAIRMAN (interposing). You have just been testifying on the purchasing power. Purchasing power has been rapidly falling off?

Mr. HENDERSON. That is right.

The CHAIRMAN. And we ought to reduce taxes?

Mr. HENDERSON. Not quite, Mr. Senator. We suggest doing a number of things to build up buying power. Tax reduction is only one of them, and I might point out, it would have to be the right kind of tax reduction, a tax reduction which would put more purchasing power into the hands of people who need it most.

The CHAIRMAN. Well, that is what we are proposing to do.

Mr. HENDERSON. This tax bill that is up now?

The CHAIRMAN. Yes.

Mr. HENDERSON. But the amount that a stenographer in the Government would get off of her taxes——

The CHAIRMAN (interposing). Not only the $2,000,000,000 or more the people in the low-income group would get, but also in the upper groups. Take the man that pays 50 percent, if he could get $2,000 more he is going to spend it, and he has been living in most cases right up to the limit of what he has.

Mr. HENDERSON. Not according to the study.

Senator O'MAHONEY. I would like to make a comment.

The CHAIRMAN. I mean people spending $25,000 a year.

Mr. HENDERSON. You cannot have it both ways. You cannot say that the people who do the saving, that is, the high-income groups, will use their money both to expand plant and equipment and also to expand consumption.

Senator O'MAHONEY. I think you and the chairman agree in principle, but you apply the principle differently. As it applies to taxation and when it comes to purchasing power, Senator Taft has supported the income-tax-reduction bill. I still call it the bill because I do not think it will become a law.

In the report Chairman Millikin filed, it appears from one passage that there are 26,000,000 taxpayers in the United States with incomes of $2,000 or less. Those who supported this tax bill insisted that the personal exemption should not be raised so as to relieve those 26,000,000 taxpayers with incomes of under $2,000. Their theory was these 26,000,000 people in this bracket of $2,000 and under, must be depended upon to bear the costs of Government. There are 26,000,000 people in this low-income bracket as compared to the 681,000 who are in the bracket of $5,000 and over.

The CHAIRMAN. Each one of those got the 30-percent reduction in taxes, 26,000,000.

Senator SPARKMAN. Thirty cents a week.

Senator FLANDERS. The 30 percent is small because the taxes are so small.

Senator O'MAHONEY. This is the rationalization. Our friends who supported the tax-reduction bill did so on the theory that because the 26,000,000 taxpayers were there, a small contribution from them would more than overbalance the amount that is contributed by taxes from those in the upper brackets, consequently, the proponents of that bill say we must get the tax dollars of the low-income group to operate the Government, but, Mr. Henderson, you say we must get the purchasing power of those 26,000,000 people and support the economy so they can profit as well as the 681,000 in the upper brackets.

Mr. HENDERSON. I say this further, Senator, if you get that purchasing power in that group, then the tax base will be supported. Then the earnings of corporations and the earnings of other people will be maintained. You get your big tax revenue from the high level of national income, and my contention is, while business spending is highly important, that you study some of the opportunities to maintain a stabilized economy, depending upon strong current consumption.

Senator O'MAHONEY. In other words, when wages and salaries are taxed and thereby the purchasing power of these 26,000,000 at the bottom of the scale is reduced, the very market upon which the higher brackets above are dependent upon for their income is reduced.

The CHAIRMAN. He is reducing salaries and wages. We are increasing them by giving them a 30-percent tax reduction.

Senator O'MAHONEY. The record would show the total receipts in the national income by way of wages and salaries has been reduced. Profits are up. The income of proprietors is up and wages and salaries are down. The whole argument is that if you permit wages and salaries to go down, you destroy the market for everybody.

The CHAIRMAN. Well, this was not the sole argument. I think the more you equalize income the better, but from the point of view of spending I see no argument. This money is not going to be spent and I can see no argument from an economic standpoint that the relative share of wages and salaries today and the relative share of farmers' earnings, and the relative share of corporation profits, is going to change materially in any way the general purchasing power of the American people.

Senator O'MAHONEY. I wonder, Senator Taft, if you believe that the increase in rent just placed upon most all Americans by the 15-percent voluntary-increase provision of the rent-control law is going to have any effect on the purchasing power.

The CHAIRMAN. Yes; I would say the increase that went to the landlord would immediately go into repairs and things neglected, and for at least 2 years you would find that money would be spent. This is not the sole argument.

Mr. HENDERSON. I think we are going to have to add something further to that.

The CHAIRMAN. I know hundreds of landlords who have been wholly unable to keep up their property because of the very tight control.

Mr. HENDERSON. The OPA control?

Senator O'MAHONEY. The theory is the tenant will provide for the landlord.

Mr. HENDERSON. We had a stenographer who figures out her savings under the new tax bill in a month would just about pay her increase in rent for 1 week, and I think that was the aptest economic statement made up to the present.

The CHAIRMAN. Thirty percent of nothing is nothing. That is sure.

Mr. HUBER. You touched on exports a while ago. On the type of product we are exporting. Are we exporting products and materials that will help in their economy or are we exporting items that will not serve to rehabilitate war-torn Europe?

Mr. HENDERSON. A lot of luxury goods did go out. Even to countries like Greece. As I said earlier, what we need today is a program which will not merely shore up the European economy but a program which will put them on their feet and enable them to meet their own requirements out of their own production.

There has been quite a bit of luxury bulying, some in South America and some in Greece. We have had to help them in order to keep body and soul together. The time has come to put them on their feet.

Senator FLANDERS. Mr. Henderson, I want to get your point of view clearly in mind so that I have it clear.

Is it your contention that all of the proceeds of industry should go back into industry through some channel at the present time?

Mr. HENDERSON. No. We are not contending that there is redundant purchasing power, idle savings. We are not contending that there is no market today for the goods that industry is producing. What we are contending is that the present demand for output is highly abnormal and cannot be expected to last very much longer. What we are contending is that the present level of business spending for inventories to finance the export balance and in the purchase of plant and equipment shows clear signs of tapering off.

And we are contending further that because of the price increases since June 1946 there has been a serious cut in the buying power of all consumers which has already been reflected in the decrease in the physical volume of retail sales. With consumption declining it is hard to see how business spending can hold up at anything close to its present levels.

To remedy the dangers in the present situation we have recommended a nine-point program, every point of which is designed to restore a sound balance between our capacity to produce and our capacity to consume and invest.

Senator FLANDER. You are saying this present volume of business spending is abnormal?

Mr. HENDERSON. That is correct.

Senator FLANDERS. That is the argument you are making?

Mr. HENDERSON. That is correct.

Senator FLANDERS. I just wanted to get that clear in my own mind. Now there are one or two subsidiary things I am not quite clear about which I would like to ask you.

Mr. HENDERSON. I have just one sentence I desire to complete, Senator, if you don't mind.

Senator FLANDERS. Certainly, go ahead.

Mr. HENDERSON. This is from the Journal of Commerce of March 28, 1947, which discusses the lagging of national income behind the price level-supply trend, and this is the quotation:

> Expressing our conclusion differently, we might say that prices are approximately 21 percent too high on an average related to the current levels of national economy and industrial production.

In other words, there is the Journal of Commerce giving that opinion.

I was looking for that copy and did not find it while Senator Taft was here.

Senator FLANDERS. Now, let us examine this further.

I want to ask a question or two about the effect of remedying this if we increase the wage rate.

One thing that has troubled a good many people, myself included, is the fact all remedies of this sort, or almost any sort, are universally applied on the basis of over-all statistics.

First, as wage increases in key industries tend to become general—would you like to see it become general?

The over-all figures for profits on the basis of figures you presented, which I am not questioning in any way, in those over-all figures are a large number of small and new enterprises. I feel as though we are running into the same thing as we ran into throughout the New Deal, in which a great deal of lip service was rendered, and back of that a great deal of real concern. Nevertheless, the action taken of favoring old, established, capable industries, which were able to ride out the changes when the new and younger ones could not—that personally gives me a great deal of concern, and I do not see the answer.

I feel the period from the thirties along has been a period of strengthening of old, established concerns.

Mr. HENDERSON. I think the steel industry and the machine-tool industry, and a number of them plainly show that. I think the reason we were able to conduct such a high level of production during the war was because of what they could do.

Senator FLANDERS. I foresee that with additional increases in wages, there will be additional burdens placed on firms that are not presently marginal, but may become marginal.

Mr. HENDERSON. I would like to ask Mr. Nathan to discuss that. He has specialized in this.

Mr. NATHAN. Well, it would seem to me that the first thing to do is to look at the over-all picture. I cannot conceive of anyone looking at millions of statistics to determine this, but in looking at the over-all picture, I agree completely with what Mr. Henderson says and disagree with Senator Taft.

I think we have shown that an imbalance exists. I think the situation is very much like the situation in 1929 and 1930. Insofar as adjustments are concerned, we have, all of us, favored wage increases.

The technique for giving wages is the technique of intelligent collective bargaining. In such a bargaining the ability of industry to pay the wage increase must be one of the dominant elements taken into consideration. It is true that a general wage increase will push some firms, the marginal firms, into the red. But that is an inevitable part of our competitive system.

And I want to point out that a general wage increase is going to be much less disastrous to small business than a recession. A recession will produce wholesale bankruptcies for small business. I think if we can have good planning and better cooperation and better relationships among all of the groups in this country and can avoid a recession, we would render small business the greatest service within our power.

Mr. GILBERT. Let me add a word to that, Senator.

Senator FLANDERS. Mr. Gilbert.

Mr. GILBERT. In the discussion of the business situation over the past year it is significant that the National Association of Manufacturers has developed the same diagnosis that we have. They, too, feel that there is an imbalance between prices and wages. But whereas we suggest a remedy which takes the form of a moderate decrease of prices plus a moderate increase of wages, the NAM suggests that reliance be placed exclusively upon a decrease of prices.

Now obviously a decline of prices with wages held at the same level will squeeze profit margins just as much as will a rise of wages with prices held at the same level. The NAM, therefore, has recognized that profits are inflated and have to come down. The real question, therefore, is whether small business will fare better if we permit a general recession to develop than it will if, under Government guidance, we provide an orderly adjustment of prices, wages, and profits.

Senator FLANDERS. May I inquire whether you think the inventory situation is as serious now as it was at that time?

Mr. HENDERSON. No; not quite as serious but nonetheless serious enough. If we have inventory losses at a level even half what they were in 1920 and 1921 the results would be very serious.

Senator FLANDERS. My impression would be in the 1920's we had certainly in some commodities excessively high speculative inventory situations.

Mr. HENDERSON. Out of the 1921 experience.

Senator FLANDERS. It is rather difficult to see corresponding evidence at the present time. There is certainly very little of the speculative type of inventory at the present time. That leads to the question of the degree of the precariousness of our situation now as compared to that time.

Mr. HENDERSON. If we had a modest readjustment of 20 percent, then the inability to sustain the existing levels of inventory would disappear also.

We have a very, very grave fear, which I think many American businessmen share, of the ability of our system to take a 20-percent reduction in volume of business.

Mr. GILBERT. May I add on the inventory point, that the total volume of inventory today runs over $35,000,000,000. A 20-percent reduction of price would involve a loss on inventory of some $7,000,000, a very serious blow which would be concentrated on the firms least able to bear it.

Senator FLANDERS. I think I have it perfectly clear in my own mind as to the point you are trying to make.

Now I would like to go back and ask two questions, Mr. Henderson, with regard to your formal presentation.

On page 2, in the third paragraph on page 2, you say: "We have learned how to fight our way up from the depths of a depression."

I question that statement. In 1939 we had 8,800,000 unemployed.

Mr. HENDERSON. Maybe I should have explained it. I should have said I think we now have the tools and understand how to use them. That is what I meant.

I think we have learned what we can do by financial management and we have learned what we can do by variations in the budget, which would permit us to prevent a depression if we had the courage to take the necessary steps.

I am not proud of that depression record. I think it was a disgraceful one.

Senator FLANDERS. Have you any thoughts which you could express at present, informally, or perhaps send in documentary suggestions as to what we might have done differently in 1937 than we did, because that appeared to be a time when we got out of it and Government action went into full swing, and in spite of that we got back in again. It seems to me 1937 is a year that might be well studied and investigated, and I personally would be very grateful if you could give the committee the benefit of your studies.

Mr. GILBERT. I would like to point out that in our report we do give the problem a paragraph or two. In 1937 and 1938 we had a shift from inventory accumulation to inventory liquidation, superimposed upon an imbalance between prices and wages and coinciding a shift from a large cash deficit to a small cash surplus. Today we face a similar development. Once again we are moving from a rapid rate of inventory accumulation to a probable period of liquidation. Once again we have developed a serious lack of balance between prices and wages. And once again these two developments are superimposed upon a major change in our fiscal operations. From a large cash deficit we have moved to a cash surplus of seven or eight billion dollars per annum.

Mr. HENDERSON. I think we can supply something later. You may remember that it was during the 1937–38 period that I set myself up as a prognosticator. I predicted the recession on the basis of price developments and the fact that the Government was undertaking to balance its budget while there were still 6,000,000 unemployed.

However, I should like to point out that since that time we have learned a great deal. We were told at the beginning of the war that if the Government undertook to finance any substantial portion of its war needs by borrowing, the result would be a rise of interest rates to 8 or 9 percent. The record shows that at no time did the Government not have adequate access to funds at low and sensible interest rates.

Senator O'MAHONEY. Let me interrupt you to ask that you place a little more emphasis on the statement which you just made, which was that in 1937, when you made this successful prognostication, the Government was undertaking to balance its budget while there were still 6,000,000 people unemployed.

I understand that your meaning is that at a time when there were 6,000,000 unemployed who could not contribute to the consuming ability of the whole economy, the Government also withdrew from the market by attempting to use a plan—to use the word which makes so many people see red when applied to Government—to reduce the Government spending.

Here we had a shortening up of spending on the part of most companies which could not sell their products, and on the part of Government which was withdrawing from the field of expenditures in an attempt to balance the budget. Is that correct?

Mr. HENDERSON. That is correct; and at the same time we had perhaps the greatest manifestation of monopoly power ever demonstrated. In the face of unused resources of all kinds—manpower, machinery, raw materials—prices were raised to ruinous levels through the exercise of monopoly power.

Senator O'MAHONEY. Senator Flanders began his question by stating that it was his impression that under present circumstances there is a tendency to strengthen the position of the well-established business institutions at the expense of some other institutions because the big businesses have the resources to withstand the storms, whereas the little fellow does not.

It has come to my attention that many small business corporations are laboring under the delusion that the income-tax bill, twice passed by this Congress, will reduce the tax burden of the corporation, whereas that is a complete mistake. The tax bill does not cut corporate taxes at all.

Have you any recommendations to make to the committee with respect to tax reformation that would strengthen the position of the small competitive corporations as they endeavor to come into the field to compete with monopolistic corporations?

Senator FLANDERS. Senator, will you include there in place of the word "monopolistic" the word "efficient"?

Senator O'MAHONEY. Oh, yes; the efficient monopoly.

Mr. HENDERSON. Senator, this is a personal point of view, something which the ADA has not passed on.

My impression, from long years of study of taxes, as well as my advisory work during periods of high taxes, is that we ought to get rid of the corporate tax entirely and go to a greater personal income tax base.

If we did that, you would not have a flat tax on a personally owned corporation. The tax would be on the basis of his profit, which would give him an advantageous position, and in my opinion substitution of the personal income tax would be a great help to corporate business. A small firm would be able to reinvest a larger portion of its earnings than it can now under the flat tax rate.

Senator O'MAHONEY. Let us develop that a little. If I understand it, elimination of the flat corporate tax and the substitution of a graduated income tax would strengthen the small competitive corporation in its effort to gain a foothold in this economy which Senator Flanders has so aptly described as dominated by efficient monopolies.

Mr. HENDERSON. I believe your prices would be lower and competition would be greater under a system of that kind.

Senator, I would like to say a word, if I might, on what ADA would hope that this committee would do.

We recognize this is the first year. On the other hand it is always assumed that nationally we ought to have some pretty well determined policies which would be taken into account in any new legislation.

The mere existence of a budget of $30,000,000,000 gives the Congress a very serious choice as to how they can affect national activity. It is not only on the expenditure side but on the revenue side the Congress can provide substantial blocks of sustaining purchasing power.

Senator FLANDERS. Let me ask whether you feel the Congress can provide sustained purchasing power at times when it needs to be provided without thereby additionally raising the national debt?

Mr. HENDERSON. Oh, absolutely.

Senator FLANDERS. I just wanted to make sure that was possible.

Mr. HENDERSON. Why, certainly. While it is true that at the time that purchasing power is required the budget should show a deficit, it is equally true that at the time when purchasing power is more than adequate the budget should show a surplus.

Senator FLANDERS. Right there——

Mr. HENDERSON (interposing). Senator, I should like to add a point on the question of price adjustment. There are large numbers of concerns that would like to cut prices. They don't want to see their price cuts not passed on to the consumer, however. The question of the proper adjustment of prices among manufacturer, retailer, and the wholesaler cannot be answered very well on the basis of independent action. We need to provide a mechanism for an orderly adjustment of prices. That is why we urge this committee to consider the setting up of a price adjustment board. The committee has a basic responsibility for maintaining a relatively stable price level, a stable value for money.

Senator FLANDERS. We tried that so far as the value of money is concerned.

Mr. HENDERSON. I think the obligation of the National Legislature is to maintain a good stable exchange basis for its money. I am not recommending any of this "funny money" spending, Senator. I opposed that in the early thirties as much as I do now. What I am talking about is the necessity of maintaining a stable economy of which a stable price level must be a part.

Mr. Chairman, the Congress is constantly making a series of choices. If those choices are made by the individual committees of the Congress without the guidance of a central committee, the result is bound to be a hodgepodge. That is why I say that the opportunities and the responsibilities of this committee are enormous. It is on this committee that the Maximum Employment Act places a responsibility for developing the over-all economic plan to guide the individual committees of the Congress.

Senator FLANDERS. May I advert to the name of your organization, Americans for Democratic Action, and suggest there in my experience in campaigning——

Senator O'MAHONEY (interposing). Do you have to campaign in Vermont?

Senator FLANDERS. Only in the primaries. I was saying that the removal of price controls, I would conclude, are an example of American short-time action, because if there was anything in my State that was popular with the sovereign voters of the State it was the removal of all price controls. So I put that down as one of the examples of Americans in Democratic Action and——

Mr. HENDERSON (interposing). What do they think about the high cost of living?

Senator FLANDERS. I was just thinking about the consumer of 1946.

Senator O'MAHONEY. He is talking about the time when promises were made rather than the time of promises.

Mr. HENDERSON. The committee examined the American Manufacturers Association and others on their statement how prices would go down if they got rid of the OPA.

Senator FLANDERS. Mr. Henderson, all I did was to listen.

Mr. HEDNERSON. I can understand that.

Senator FLANDERS. I listened sympathetically. I will add that word "sympathetically," because my real thought was not just intended as a jibe.

Mr. HENDERSON. I agree.

Senator FLANDERS. There is in my mind the thought that your line of thinking involves controls, not of the wartime sort, but does nevertheless involve manipulation by the Government, some of which will be unpalatable, and which under the old notion of democracy and democratic action will not seem to fit into the picture.

Mr. HENDERSON. Now, Senator, let us take the question of a certain textile company that during the war had taken over a special 2-percent discount. I think the fellow is a New Englander, probably a friend of yours. There were negotiations between the powerful groups of buying elements which enabled him to restore that 2 percent.

You take the building industry where a part of the final cost of the building amounts to only $30 or $40. If that industry just reduced its price it would not be passed on. If there was some voluntary agency that could make a simultaneous reduction that would not involve the exercise of controls, although it might involve the same kind of pressures which big business exercises on the others, which I always thought was an unhealthy thing, but we are talking in this price-stabilization period of an organized effort to make these negotiations.

Senator FLANDERS. Have we consulted with the Department of Justice?

Mr. HENDERSON. Well, you know, as far as I can give a ruling on that without being a lawyer or a member of the Government, there is nothing in the world to prevent any group of businessmen, each one individually agreeing, or saying to its Government, "We will reduce prices." There is no violation of any of the antitrust acts by that. If there had been, we would have been guilty many, many times in the past.

Senator FLANDERS. Mr. Hart, have you any questions?

Mr. HART. No, sir.

Senator FLANDERS. I think, Mr. Henderson, we will excuse you, and the committee wishes to thank you for your comments and your fine presentation.

Mr. HENDERSON. May I thank you and the committee.

Senator O'MAHONEY. I cannot take the time now to ask a lot of questions which I would like to ask, because I know Mr. Martin has a date at 1 o'clock which he must keep; but I would like to make this comment with respect to what the chairman has said about his experience with Americans for Democratic Action in Vermont. I think that without question the masses of the people of America, including those in Vermont——

Senator FLANDERS (interposing). We included them in the election last fall. We included the rest of the country.

Senator O'MAHONEY. That is what I was about to say. Americans everywhere dislike regimentation by Government, but the solutions that seem to be presented to us depend upon the discovery of some mutual force, and I take it ADA is trying to find a course between regimentation by the Federal Government, if we could make the economy work under that, and the real competitive system that seems to be desirable. Is that your objective?

Mr. HENDERSON. That is correct.

Senator O'MAHONEY. I notice at the very beginning that you state we were not yet ready for a free market. Do I understand that to mean that you feel a free market could be of advantage?

Mr. HENDERSON. That is right. Our feeling is we passed into a so-called free-market situation entirely too soon, and the conditions that would make a real free market were not present.

Senator O'MAHONEY. I just wanted to make the record clear you were not appearing as an advocate of Government control as such.

Mr. HENDERSON. No. Our nine-point program is not a suggestion for the reestablishment of legal control.

The CHAIRMAN. I take it as far as your program is critical of what the Government has done it includes the administration as well as people in the legislative branch.

Mr. HENDERSON. Oh, yes. I was surprised, Senator Taft, that was not your first question.

The CHAIRMAN. Well, I note the housing controls, which were removed by the President and not by Congress, and one or two other things.

Mr. HENDERSON. I might say, in the document we submitted you will find that we feel that one small step on housing could be accomplished by what is known as the Taft-Ellender-Wagner bill.

The CHAIRMAN. Four times as large—500,000 instead of 125,000.

Mr. HENDERSON. When you get Americans for Democratic Action, there is nothing small about them.

The CHAIRMAN. Thank you.

(The data furnished by Mr. Henderson is as follows:)

LIST OF TABLES ACCOMPANYING STATEMENT OF AMERICANS FOR DEMOCRATIC ACTION BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT

TABLE 1.—*Consumers' price index and selected components for selected dates and percentage changes to March 1947*

[1935-39=100]

	August 1939	Jan. 1, 1941 [1]	May 1943	August 1945	June 1946	March 1947
Total index	98.6	100.8	125.1	129.3	133.3	156.3
Food	93.5	97.6	143.0	140.9	145.6	189.5
Clothing	100.3	101.2	127.9	146.4	157.2	184.3
Rent	104.3	105.0	108.0	108.3	108.5	109.0
Percentage changes to March 1947:						
Total index	58.5	55.1	24.9	20.9	17.3	
Food	102.7	94.2	32.5	34.5	30.2	
Clothing	83.7	82.1	44.1	25.9	17.2	
Rent	4.5	3.8	.9	.6	.5	

[1] Data are as of 15th of the month except for January 1941.

Source: U. S. Bureau of Labor Statistics.

TABLE 2.—*Wholesale price indexes for selected dates and percentages changes to March 1947*

[1926=100]

	All commodities	All commodities except farm products and foods
August 1939	75.0	80.1
January 1941	80.8	84.3
May 1943	104.1	96.7
August 1945	105.7	99.9
June 1946	112.9	105.6
March 1947	149.5	131.1
Percentage change to March 1947 from—		
August 1939	99.3	63.7
January 1941	85.0	55.5
May 1943	43.6	35.6
August 1945	41.5	31.2
June 1946	32.4	24.1

Source: U. S. Bureau of Labor Statistics.

TABLE 3.—*Wholesale price indexes, August 1939, June 1946, and March 1947, and percentage changes to March 1947*

[1926=100]

	August 1939	June 1946	March 1947	Percentage change to March 1947 from—	
				August 1939	June 1946
All commodities	75.0	112.9	149.5	99.3	32.4
Raw materials	66.5	126.3	163.2	145.4	29.2
Semimanufactured	74.5	105.7	145.9	95.8	38.0
Manufactured	79.1	107.3	143.3	81.2	33.6
Farm products	61.0	140.1	182.6	199.3	30.3
Foods	67.2	112.9	167.6	149.4	48.4
All other than farm products	77.9	106.7	142.1	82.4	33.2
All other than farm products and foods	80.1	105.6	131.1	63.7	24.1
Selected groups:					
Hides and leather products	92.7	122.4	174.6	88.3	42.6
Textile products	67.8	109.2	139.6	105.9	27.8
Fuel and lighting	72.6	87.8	100.7	38.7	14.7
Metals and metal products	93.2	112.2	139.9	50.1	24.7
Building materials	89.6	129.9	177.5	98.1	36.6
Chemicals and drugs	74.2	96.4	132.2	78.2	37.1

Source: U. S. Bureau of Labor Statistics.

TABLE 4.—*Indexes of income payments and of salaries and wages, seasonally adjusted, for selected quarters and percentage changes to first quarter of 1947*

[1935–39=100]

Period	Total income payments	Salaries and wages
Third quarter, 1939	105.8	106.9
First quarter, 1941	123.9	127.9
First quarter, 1945	243.7	269.4
Third quarter, 1945	236.1	254.6
Second quarter, 1946	235.7	241.2
First quarter, 1947	263.9	262.5
Percentage change to first quarter, 1947, from—		
Third quarter, 1939	149.4	145.6
First quarter, 1941	113.0	105.2
First quarter, 1945	8.3	−2.6
Third quarter, 1945	11.8	3.1
Second quarter, 1946	12.0	8.8

Source: U. S. Department of Commerce.

TABLE 5.—*Indexes of real income payments and of real salaries and wages, seasonally adjusted, for selected quarters and percentage changes to first quarter, 1947*

[1935–39=100]

Period	Total income payments	Salaries and wages
Third quarter, 1939	106.4	107.5
First quarter, 1941	122.8	126.8
First quarter, 1945	192.0	212.3
Third quarter, 1945	182.7	197.1
Second quarter, 1946	178.6	182.7
First quarter, 1947	171.0	170.1
Percentage change to first quarter, 1947, from—		
Third quarter, 1939	60.7	58.2
First quarter, 1941	39.3	34.1
First quarter, 1945	−12.3	−24.8
Third quarter, 1945	−6.8	−15.9
Second quarter, 1946	−4.4	−7.4

Source: U. S. Department of Commerce indexes adjusted for changes in consumers' prices (BLS index).

TABLE 6.—*Indexes of weekly earnings in nonagricultural industries for selected months and percentage changes to March 1947*

[1939=100]

Month and year	All groups	Wage earners						Clerical and professional
		All	Manufacturing	Mining	Public utilities	Construction	Trade and service	
August 1939	100.0	99.9	99.9	99.4	100.0	100.8	99.8	100.2
January 1941	105.3	106.1	111.7	103.9	102.6	108.7	101.3	103.5
May 1943	141.1	149.2	180.2	157.5	128.4	153.7	122.3	123.1
August 1945	153.4	160.2	175.4	182.7	150.1	182.0	142.0	138.1
June 1946	164.1	170.8	181.4	213.8	160.3	179.9	157.3	149.0
March 1947	175.0	185.0	199.0	221.0	164.0	208.0	171.0	153.0
Percentage change to March 1947 from—								
August 1939	75.0	85.2	99.2	122.3	63.0	106.3	71.3	51.6
January 1941	66.2	74.4	78.2	112.7	58.9	91.4	68.8	46.9
May 1943	24.0	24.0	10.4	40.3	26.9	35.3	39.8	23.5
August 1945	14.1	15.5	13.5	21.0	8.6	14.3	20.4	10.1
June 1946	6.6	8.3	9.7	3.4	2.3	15.6	8.7	2.7

Source: Federal Reserve Bank of New York.

TABLE 7.—*Indexes of real weekly earnings in nonagricultural industries for selected months and percentage changes to March 1947*

[1939=100]

Month and year	All groups	Wage earners						Clerical and professional
		All	Manufacturing	Mining	Public utilities	Construction	Trade and service	
August 1939	100.8	100.7	100.7	100.2	100.8	101.6	100.6	101.0
January 1941	103.8	104.6	110.2	102.5	101.2	107.2	99.9	102.1
May 1943	111.7	118.1	142.7	124.7	101.7	121.7	96.8	97.5
August 1945	118.0	123.2	134.9	140.5	115.5	140.0	109.2	106.2
June 1946	122.4	127.4	135.3	159.4	119.5	134.2	117.3	111.1
March 1947	111.3	117.7	126.6	140.6	104.3	132.3	108.8	97.3
Percentage change to March 1947 from—								
August 1939	10.5	16.8	25.6	40.3	3.4	30.0	8.0	−3.8
January 1941	7.1	12.4	14.9	37.2	3.0	23.3	8.9	−4.8
May 1943	−.4	−.4	−12.8	12.6	2.3	8.7	12.4	−.2
August 1945	−6.0	−4.7	−6.5	0	−10.6	−5.8	−.4	−9.2
June 1946	−10.0	−8.2	−6.9	−13.4	−14.5	−1.4	−7.9	−14.2

Source: Federal Reserve Bank of New York index adjusted for changes in consumers' prices (BLS index) from 1939 average.

TABLE 8.—*Indexes of hourly earnings of nonagricultural wage earners for selected months and percentage changes to March 1947*

[1939=100]

	All wage earners	Manufacturing	Mining	Public utilities	Construction	Trade and service
August 1939	99.4	98.6	100.4	99.7	100.0	99.9
January 1941	104.8	107.9	101.4	101.5	104.2	103.3
May 1943	135.2	150.6	128.1	117.9	132.5	126.8
August 1945	150.2	161.8	142.6	132.1	149.7	146.3
June 1946	164.7	171.2	163.6	152.2	156.0	164.4
March 1947	178.0	186.0	170.0	157.0	171.0	179.0
Percentage change to March 1947 from—						
August 1939	79.1	88.6	69.8	57.5	71.0	79.2
January 1941	69.8	72.4	67.7	54.7	64.1	73.3
May 1943	31.7	23.5	32.7	33.2	29.1	41.2
August 1945	18.5	15.0	19.2	18.8	14.2	22.4
June 1946	8.1	8.6	3.9	3.2	9.6	8.9

Source: Federal Reserve Bank of New York.

TABLE 9.—*Average weekly earnings in nonagricultural establishments, by industry divisions, for selected months and percentage changes to March 1947*

	August 1939	January 1941	May 1943	August 1945	June 1946	March 1947
All manufacturing	$23.77	$26.64	$43.08	$41.72	$43.31	$47.72
Durable	26.63	30.48	49.25	45.72	46.32	50.33
Nondurable	21.77	22.75	34.07	36.63	40.28	44.90
Wholesale trade	29.82	30.59	38.86	43.27	47.88	50.80
Retail trade	21.39	21.53	24.42	29.01	32.93	35.31
Construction	30.91	32.18	47.46	55.79	55.23	60.63
Bituminous coal	24.61	26.00	39.12	49.90	64.44	64.90

TABLE 9.—*Average weekly earnings in nonagricultural establishments, by industry divisions, for selected months and percentage changes to March 1947*—Con.

	August 1939	January 1941	May 1943	August 1945	June 1946	March 1947
Percentage change to March 1947:						
All manufacturing	100.8	79.1	10.8	14.4	10.2	----------
Durable	89.0	65.1	2.2	10.0	8.6	----------
Nondurable	106.2	97.4	31.8	22.5	11.5	----------
Wholesale trade	70.4	66.1	30.7	17.4	6.1	----------
Retail trade	65.1	64.0	44.6	21.7	7.2	----------
Construction	96.2	88.4	27.7	8.7	9.8	----------
Bituminous coal	163.7	149.6	65.9	30.1	.7	----------

Source: U. S. Bureau of Labor Statistics.

TABLE 10.—*Average real weekly earnings in nonagricultural establishments, by industry divisions, for selected months and percentage changes to March 1947*

	August 1939	January 1941	May 1943	August 1945	June 1946	March 1947
All manufacturing	$23.96	$26.27	$34.22	$32.07	$32.30	$30.35
Durable	26.84	30.06	39.12	35.15	34.54	32.03
Nondurable	21.95	22.44	27.06	28.16	30.04	28.58
Wholesale trade	30.06	30.17	30.87	33.26	35.70	32.31
Retail trade	21.56	21.23	19.40	22.30	24.56	22.46
Construction	31.16	31.74	37.70	42.88	41.18	38.57
Bituminous coal	24.81	25.64	31.07	38.36	48.05	41.27
Percentage change to March 1947:						
All manufacturing	26.7	15.5	−11.3	−5.4	−6.0	----------
Durable	19.3	6.6	−18.1	−8.9	−5.5	----------
Nondurable	30.2	27.4	5.6	1.5	−3.0	----------
Wholesale trade	7.5	7.1	4.7	−2.9	−9.5	----------
Retail trade	4.2	5.8	15.8	.7	−8.6	----------
Construction	23.8	21.5	2.3	−10.1	−6.3	----------
Bituminous coal	66.3	61.0	32.8	7.6	−14.0	----------

Source: U. S. Bureau of Labor Statistics, average earnings adjusted for changes in consumers' price index from 1939 average.

TABLE 11.—*Average hourly earnings in nonagricultural establishments by industry divisions, for selected months and percentage changes to March 1947*

	August 1939	January 1941	May 1943	August 1945	June 1946	March 1947
	Cents	*Cents*	*Cents*	*Cents*	*Cents*	*Cents*
All manufacturing	62.4	68.3	95.3	102.4	108.4	118.0
Durable	68.8	74.9	105.0	111.3	116.5	123.7
Nondurable	57.6	61.0	79.6	90.9	100.3	111.9
Wholesale trade	71.1	75.6	93.4	101.3	114.6	123.1
Retail trade	54.1	54.9	66.3	77.3	87.6	96.3
Construction	92.4	98.6	124.6	138.3	144.[illegible]	158.5
Bituminous coal	89.0	88.5	112.0	124.9	147.4	148.4
Percentage change to March 1947:						
All manufacturing	89.1	72.8	23.8	15.2	8.9	----------
Durable	79.8	65.4	17.8	11.2	6.2	----------
Nondurable	94.3	83.4	40.6	23.1	11.6	----------
Wholesale trade	73.1	62.8	31.8	21.5	7.4	----------
Retail trade	78.0	75.4	45.2	24.6	9.9	----------
Construction	71.5	60.8	27.2	14.6	9.8	----------
Bituminous coal	66.7	67.7	32.5	18.8	.7	----------

Source: U. S. Bureau of Labor Statistics.

TABLE 12.—*Average net spendable weekly earnings in manufacturing establishments for selected months and percentage changes to March 1947* [1]

	All manufacturing		Durable goods		Nondurable goods	
	Single worker	Family of 4	Single worker	Family of 4	Single worker	Family of 4
August 193	$23.50	$23.53	$26.23	$26.36	$21.55	$21.55
January 1941	25.41	26.37	28.86	30.18	21.91	22.52
May 1943	35.97	41.34	40.79	46.22	28.93	33.17
August 1945	34.88	40.47	38.01	43.78	30.89	35.56
June 1946	37.30	42.78	39.77	45.25	34.82	39.88
March 1947	40.71	46.19	42.75	48.23	38.52	44.00
Percentage change to March 1947 from—						
August 1939	73.2	96.3	63.0	83.0	78.7	104.1
January 1941	60.2	75.2	48.1	59.8	75.8	95.4
May 1943	10.1	11.7	4.8	4.3	33.1	32.6
August 1945	16.7	11.4	12.5	10.2	24.7	23.7
June 1946	7.3	8.0	7.5	6.6	10.6	10.3

[1] Net spendable weekly earnings are obtained by deducting from gross weekly earnings social security, victory, and income taxes for which the specified worker is liable. These figures represent average earnings adjusted for the respective tax exemptions of single workers, and workers with 3 dependents. It should not be inferred that the average earnings before taxes of workers with 3 dependents are the same as those of single workers.

Source: U. S. Bureau of Labor Statistics.

TABLE 13.—*Average real net spendable weekly earnings in manufacturing establishments for selected months and percentage changes to March 1947* [1]

	All manufacturing		Durable goods		Nondurable goods	
	Single worker	Family of 4	Single worker	Family of 4	Single worker	Family of 4
August 1939	$23.69	$23.72	$26.44	$26.57	$21.72	$21.72
January 1941	25.06	26.00	28.46	29.76	21.61	22.91
May 1943	28.58	32.85	32.41	36.72	22.99	26.36
August 1945	26.81	31.11	29.22	33.66	23.75	27.34
June 1946	27.81	31.90	29.66	33.74	25.96	29.74
March 1947	25.89	29.37	27.19	30.67	24.50	27.98
Percentage change to March 1947 from—						
August 1939	9.3	23.8	5.8	15.4	15.8	28.8
January 1941	3.3	13.0	−4.5	3.1	13.4	22.1
May 1943	−9.4	−10.6	−14.7	−16.5	6.6	6.1
August 1945	−3.4	−5.6	−6.9	−8.9	3.2	2.3
June 1946	−6.9	−7.9	−6.0	−6.5	−5.6	−5.9

[1] Net spendable weekly earnings (see footnote to table 12) adjusted for changes in consumers' price (BLS index) from 1939 average.

Source: U. S. Bureau of Labor Statistics.

TABLE 14.—*Corporation profits before and after taxes,*[1] *for selected years*

[Billions of dollars]

Period	All corporations		Manufacturing	
	Before taxes	After taxes	Before taxes	After taxes
1929	9.8	8.3	5.0	4.4
1936	5.6	4.2	3.6	2.9
1937	6.1	4.6	3.7	2.9
1938	3.2	2.1	1.6	1.1
1939	6.4	4.9	3.7	2.9
1936–39 average	5.3	3.9	3.2	2.5
1940	9.2	6.2	5.6	3.8
1941	17.1	9.1	11.2	5.7
1942	21.9	9.4	12.7	5.2
1943	24.5	10.4	14.3	5.6
1944	23.8	9.9	13.7	5.4
1945	20.2	8.9	10.6	4.6
1946	21.1	12.5	10.9	6.3
First quarter [2]	15.2	9.1	5.7	2.9
Second quarter	19.4	11.5	10.1	6.0
Third quarter	22.9	13.5	12.0	7.2
Fourth quarter	27.1	16.1	15.7	9.2

[1] Federal and State income and excess profits taxes.
[2] Quarterly totals shown at annual rates, seasonally adjusted for all corporations, not so adjusted for manufacturing corporations.

Source: U. S. Department of Commerce.

TABLE 15.—*Return on net worth, before and after taxes, of 2,500 leading industrial corporations, 1936–39 to 1944*

Year	Before taxes [1]	After taxes [1]
	Percent	*Percent*
1936–39 average	9.8	8.1
1940	13.8	9.8
1941	23.3	12.1
1942	24.0	9.9
1943	25.8	10.1
1944	25.6	10.0

[1] Federal income and excess-profits taxes.

Source: Office of Price Administration.

TABLE 16.—*Indexes of retail sales, adjusted for seasonal variation, for selected months and percentage changes from peak month to May 1947* [1]

[August 1945=100]

	Dollar volume			Physical volume [2]		
	All retail stores	All non-durable goods stores	Apparel stores	All retail stores	All non-durable goods stores	Apparel stores
VJ-day levels: August 1945	100	100	100	100	100	100
Peak month:						
February 1946				124	120	118
August 1946			126			
February 1947	143	130				
Latest: May 1947	140	127	114	111	100	90
Percentage change from peak month to May 1947	−2.1	−2.3	−9.5	−10	−17	−24

[1] U. S. Department of Commerce indexes, shifted to August 1945 base.
[2] Corrected for changes in corresponding retail prices (BLS indexes).

TABLE 17.—*Gross national product and components: Annual totals and seasonally adjusted quarterly totals at annual rates*

[Billions of dollars]

	I	II	1945, III	IV	Total	I	II	1946, III	IV	Total	1947, first half
Gross national product	205.1	208.2	198.2	185.2	199.2	183.7	190.2	196.6	204.7	194.0	209.0
Government expenditures for goods and services	96.5	99.8	81.0	57.2	83.6	39.6	36.7	31.3	30.8	34.7	31.5
Federal	88.7	92.0	73.1	49.3	75.8	31.1	27.7	21.5	20.3	25.2	-------
State and local	7.8	7.8	7.9	8.0	7.9	8.5	9.0	9.8	10.5	9.5	-------
Output available for private use	108.6	108.4	117.2	128.0	115.5	144.1	153.5	165.3	173.9	159.3	177.5
Private gross capital formation	3.6	6.6	11.2	15.0	9.1	23.1	31.4	35.7	37.9	32.1	39.0
Construction	1.8	2.2	2.8	3.6	2.6	6.5	8.0	8.3	8.8	7.9	9.0
Producers' equipment	5.2	6.1	6.7	8.3	6.6	9.5	12.0	14.0	15.6	12.8	17.0
Net change in business inventories	−2.5	−.7	.3	.8	−.6	3.4	4.0	8.6	9.7	6.5	3.0
Net exports	−.9	−.9	1.4	2.4	.5	3.7	7.4	4.8	3.8	4.9	10.0
Consumers' goods and services	105.0	101.8	106.0	113.0	106.4	121.0	122.1	129.6	136.0	127.2	138.5
Durable goods	7.4	7.1	7.4	9.0	7.7	11.7	13.1	15.0	16.7	14.1	18.0
Nondurable goods	65.0	61.5	65.1	70.6	65.6	75.1	74.0	78.3	81.8	77.3	82.5
Services	32.6	33.2	33.5	33.3	33.1	34.2	35.0	36.3	37.5	35.8	38.0

Source: 1945–46, U. S. Department of Commerce; first half 1947, ADA committee estimate.

TABLE 18.—*Monthly changes in dollar values of business inventories, September 1945–March 1947* [1]

[Millions of dollars]

Month	Total business inventories	Manufacturers'		Retail		Wholesale
		Durable goods	Nondurable goods	Durable goods	Nondurable goods	
1945—September	271	−10	73	91	−22	139
October	374	−140	233	−34	100	215
November	218	−196	293	−43	81	83
December	−1,188	−320	54	−272	−729	79
1946—January	213	30	51	94	55	−17
February	472	144	77	150	105	−4
March	673	295	−56	152	161	121
April	275	45	−37	23	206	38
May	353	123	−26	62	149	45
June	413	232	9	85	47	40
July	1,320	238	613	133	192	144
August	1,187	260	144	158	458	167
September	1,128	233	217	205	227	246
October	1,585	292	361	268	381	283
November	1,221	208	187	240	186	400
December	−265	225	143	−279	−555	201
1947—January	1,093	546		281	−66	332
February	1,116	375		224	274	243
March	1,109	374		391	129	215

[1] Not adjusted for seasonal variation.

Source: U. S. Department of Commerce.

TABLE 19.—*United States export surplus and sources of payment, 1946 and first quarter 1947*

[Billions of dollars]

	1946	First quarter, 1947 [1]
Export surplus [2]	8.2	12.0
Source of payment:		
Foreign assets including gold	2.2	4.8
Long- and short-term credit	3.0	4.8
Unilateral transfers	3.1	2.1

[1] Annual rate.
[2] Totals do not equal sums of sources, due to rounding.

Source: U. S. Department of Commerce.

STATEMENT OF LAWRENCE MARTIN, ASSOCIATE EDITOR, THE DENVER POST, DENVER, COLO.

The CHAIRMAN. You may proceed, Mr. Martin.

Mr. MARTIN. I think that after all the high-powered testimony you have been hearing you are going to find mine rather dull.

I have prepared a statement for the committee which I would like the privilege of offering for the record.

The CHAIRMAN. You may read it or we will print it.

Mr. MARTIN. I would like briefly to summarize the statement at this time.

The CHAIRMAN. Yes.

Mr. MARTIN. The subject on which I would like to speak is the item in the President's report dealing with regional development. On that question the President's report said:

> Here the problem is one of realizing the tremendous economic potential of regional programs in development of power and effective means of flood control and irrigation; in improvement of facilities for transportation by land, by inland waterway, and by air, and in far-sighted management of public lands. Such programs can benefit the entire Nation by promoting regional prosperity, and through sound community development, reviving stranded and depressed areas across the country. Appropriations for these purposes should be considered as capital investment rather than expenditures, as in most instances they are wealth-producing and self-liquidating.

That paragraph, gentlemen of the committee, is eloquent alike for what it says and what it leaves unsaid. May I suggest some of the things that must precede and others that will accompany the President's hoped-for realization of "tremendous economic potential." That economic potential exists, but no one step will put it to work.

While I shall deal principally with the region with which I am most familiar, the problems, needs, opportunities, and obstacles that appear there are present in some form in other regions also. My reference will be to the vast imperial area of the Rocky Mountain and High Plains States. This area—an empire in expanse and resources—is engaged principally in agriculture, raising of livestock, and mining.

Important as these States are in their present contribution to national wealth and well-being, they have a potential far beyond anything yet achieved. Under favorable conditions, which the people of the region cannot create by their own unaided efforts, they could and they would make an immensely greater contribution to an integrated and well-rounded national economy. The conditions required for this include, among others, the following:

1. A greater degree of industrialization.
2. A more intimate and workable relation between the interests of agriculture, industry, and labor.
3. Security for small business and small industry against monopoly and ruinous big-business competition.
4. Harnessing of power under a well-defined governmental power policy.
5. Orderly and unified development and control of water resources under area plans for irrigation and flood control.
6. Relief from inequitable and punitive freight rates, and removal of obstacles to truck transportation.
7. Stabilization and clarification of Government policies regarding mining.
8. Prudent and encouraging, but not paternalistic policies regarding agriculture and livestock.
9. Elimination of economic vassalage in which the region has been kept in some respects by absentee interests.
10. And this should have high priority—a fuller and more informed understanding of the physical facts about the region, its possibilities and needs, on the part of economic, industrial, and political leadership in other parts of the country.

Not all these items lie wholly in the province of this committee, or of the Congress or of Government. But they are all intimately related to the studies your committee is making, and most of them touch somewhere the fields of Government authority.

Nonagricultural industrialization of the region on a major scale is unlikely. Agriculture and livestock probably will remain its primary destiny. That fact fits it for a position of vital usefulness, which will increase rather than diminish. Without the foods produced there, America's ration would be sharply reduced. Therefore every necessary encouragement and aid should be given those engaged in this industry, with due regard to maintaining the interests of the whole community in equality and fairness.

Nonagricultural industries, as I have said, probably always will lie in the category of small business, and they will be widely diversified. Yet in the aggregate they could add values at present unrealized and wasted, both as to the local community, the region, and the Nation.

For example: There is possible, both in Colorado and Wyoming, the growth of a substantial pulpwood industry which up to now has not been able to survive the freight rates charged to ship to the distant mills. The making of shoes and other leather goods as an industry related to livestock raising, and the processing of wool are two other very important possibilities now unrealized. Many such industrial extensions locally await only the establishment of the minimum conditions of success.

Development of hydroelectric power, recommended in the President's program, implies creation of one favorable condition. The attention of the committee is invited to three facts in this connection. They are:

1. Necessity for a clear, definite statement of what the Government's power policy is to be.

2. Necessity of early determination, consonant with all the facts, of the permanent program for the Missouri River Basin and similar regions.

3. Necessity of preventing the crippling of programs for power development, irrigation, and flood control through false economy.

As to the first fact, there are many complexities that need study and resolution, Congress is the only authority competent to provide this.

As to the second, members of the committee are aware that the Senator from Montana, Mr. Murray, has legislation pending for the creation of a Missouri Valley Authority modeled upon the Tennessee Valley Authority, to deal comprehensively with power, irrigation, and flood control. At the same time, the Bureau of Reclamation and the Army engineers have come together in an odd form of marriage on a plan which is now in the early stages of application.

Whatever plan becomes the permanent pattern, it seems to be of the greatest importance that there should be no waste of time or funds, through duplication, overlapping, or the substitution of one program for another. This issue needs to be settled promptly and with the fullest regard for a sound economy and for the rights and desires of the people most closely concerned. It is one that urgently invites the most interested attention of the competent committees and of all Members of the Congress; and may I add that it is difficult, if not impossible, to understand all aspects of this very important matter from the remoteness of Washington.

On the third fact, I am sure members of the committee have heard the economy issue debated eloquently, both pro and con, during discussion, especially of the appropriations for reclamation. I shall not labor the point here, except to say that the possibilities of being penny-wise and pound-foolish on such questions of vital concern are almost inexhaustible.

Given power, given reasonable and scientifically devised freight rates, given opportunity and protection for small business and industry, the industrial growth of the region on a scale commensurate with its natural position in the very heart of the country would be steady and wealth-producing in many directions. It would, for example, provide employment for our surplus farm population, for those who leave the ranches for other employment. Many of these are lost to the community because they have to go elsewhere for jobs.

It would prevent out-migration of many others in the labor supply who travel from us for the same reason. It would put a stop to most of the loss of one of our most precious assets—young men and women trained in technical and professional skills in our fine colleges and universities, many of whom are forced upon graduation to find elsewhere the very beginnings of their careers. We lose not only their immediate usefulness, but their future community leadership.

The nonferrous mineral resources of the region are still large and of great value to the high-level economy of maximum production which we must have to sustain ourselves and assist Europe. Opening of regional industrial doors now closed would stimulate such mining by affording local outlets for the product, by making profitable recovery from low-grade ores, and by encouraging exploration and development. Mining would be more closely woven into the regional economy, and through that means the national economy as well.

At this time, having done a superb job in war production at a time of perilous need, mining men are facing the future with uncertainty. The relation of labor costs to prices; the relation of their industry to world economy; doubt as to future Government policies; and the constant increase of substitutes make the mining picture less than rosy. Either directly or through regional industrialization, encouragement and help should be accorded that industry.

One further item in the President's program deserves a mention here—the need for "far-sighted management of public lands." Public lands, theoretically at least, are for the use, enjoyment, and benefit of all the people. I suggest to the committee that a thorough study should be made, thoroughly and completely, to learn whether the vast area of public lands are actually of such use, enjoyment, and benefit in the most practical sense.

It is, I know, a very broad and controversial field. But if public-lands policies make of public lands a liability to the economy, either regional or national, then those policies ought to be changed to make public lands a more useful asset to all.

In all the regions where regional development such as the Economic Report contemplates is possible, there is a very lively interest among the people most intimatelly concerned. Careful and thorough studies on the practical level are being made. For example, a few weeks ago leaders of industry, labor, finance, transportation, agriculture, mining, the consumer interest, and education from eight or more States met in a 2-day conference on regional economic and industrial development, under sponsorship of the University of Denver.

A few days from now a conference on labor, agriculture, and industry, under the auspices of the University of Wyoming, will be held in that State. These people are awake and eager to build more fully their share of America's total strength. They are just as determined to give the same unstinted service to the winning of the peace as they gave to winning the war. They need the encouragement sound Government policy can give them along the lines indicated—less help for monopolistic business and more help for small business and industry; more equitable rates for transportation; no false economy on power and reclamation projects; elimination of discriminatory practices that help maintain economic vassalage.

In response to that kind of regional Marshall plan, so to speak, the economically weaker regions of this country will prove their strength, their productive ability and capacity, and their stature as full partners in an American economy that can meet any test.

I thank the committee for the opportunity of presenting these views.

Senator O'Mahoney. Mr. Martin, I would like to ask you, in connection with these recent conferences under the auspices of the University of Denver and the University of Wyoming, to what extent the other educational institutions in the area are picking up this theme?

It has always been my feeling that our public-school system out West is so organized through State superintendents and county superintendents that great awareness of the possibilities of that area could be built up if the schools would constitute a forum to convey information as to the existence of the resources.

Mr. Martin. I think, Senator, that is in the air. It is further along than that. The conference held by the University of Denver and the previous studies made by Dr. Kaplan and others you know have already encouraged some of the other institutions to come in, and the forums of the university at Laramie, the University of Wyoming, of which I think this is the third, demonstrate a very growing interest among educators there. As General Marshall said the other night, the man in the street does not get a clear picture. They are beginning to realize this is their problem. I think the educational institutions will do their share.

Senator O'MAHONEY. Your objective is not so much the Government to make this development as to have the Federal Government establish such public-land policies as would stimulate the people in these communities in this area to develop their own resources.

Mr. MARTIN. Well, Senator, I feel one of the curses of this country has been regionalism and sectionalism. On the other hand those things have had to be at times defenses against encroachment from elsewhere.

What I think should be done is for the Government to make it possible for those people out there to do their job as far as possible in any way it can.

I would like very much, and I am very hopeful Senator Murray will succeed in bringing to the Missouri Valley sometime this summer a representative group from his community and Congress to study that MVA.

Senator O'MAHONEY. The conference committee on the Interior Department appropriation bill is having a meeting at 1 o'clock at which time it will attempt to arrive at some kind of conclusion with respect to the progress of reclamation and public power during the coming fiscal year. It remains to be seen.

Mr. MARTIN. The question I suggested as to a definition of public power policy is very important. I believe there is some legislation pending on that subject.

Senator O'MAHONEY. Yes; I think the suggestion is being made to add some legislation to this bill.

The CHAIRMAN. We are very much obliged.

Mr. MARTIN. Thank you very much for the opportunity. I am not an economist. I am a newspaperman. Economists out there are somewhat scarcer than they are around here.

The CHAIRMAN. Thank you very much.

(The paper submitted by Mr. Martin follows:)

TESTIMONY OF LAWRENCE MARTIN, ASSOCIATE EDITOR, THE DENVER POST, BEFORE THE JOINT COMMITTEE ON THE ECONOMIC REPORT JULY 16, 1947

Mr. Chairman and gentlemen of the committee, world events and conditions, and the foreign policy of our Government which has evolved because of them, admonish us sternly of the need to marshal the strength of the United States to a degree unprecedented in our peacetime history. The vision and hope of one world have grown dim; they must be given up for the present. Instead, we face the possibility that, unless effective steps to the contrary are taken, the entire continent of Europe and perhaps other areas will become a world dominated by political and economic doctrines alien and hostile to the democratic conception.

There is no realism in trying to deny the fact that the United States is the only power competent to initiate and carry through those contrary steps. That they will be steps principally economic there is no doubt, until and unless it becomes evident that power of a different sort must be exerted as a final defensive measure. There is, fortunately, practically universal determination by the American people, by Congress and by the executive branch of the Government to exhaust every resource of patience, intelligence, and good will before even considering any other measures.

The Marshall plan may furnish the successful formula. It is the only plan in sight just now. No matter what the program is for the redemption, reconstruction and rehabilitation of Europe, or parts of Europe, it will be costly and take a long time. How costly or how long, nobody knows.

The war left us domestic economic problems numerous and complicated enough to test our capacity, both as people and government, to meet almost revolutionary changes without losing either our liberties or our high standards of living. Solution of these domestic problems on a soundly democratic basis is primary to our security. Failure so to solve them will give the small but aggressive and disciplined Communist minority in this country the opportunity they alertly await of applying here their classic pattern of subversion. At the same time it is also true that our economy could not long withstand unshaken the collapse of Europe.

This double task of making secure our own domestic welfare while we help to remove from Europeans the cold hand of fear that is gripping more and more of them every day is not too great either for our spirit or our economy, provided that we remain strong where we are strong, and make ourselves strong where we are weak. We dare not tolerate, under these conditions, an economy divided against itself, in which areas of weakness subtract from the over-all strength. We cannot tolerate Balkan areas in our country, where backwardness, lack of progress, of incentive or opportunity, or the worse evil of economic vassalage constitute a minus factor against the total of our economic power.

The long-range program of the President's Economic Report, now under consideration by this committee, took note in general terms of some of these areas of weakness. With your permission I shall speak briefly on some matters covered and some not directly referred to in the President's recommendations for regional development.

We know from experience in this country that regionalism and sectionalism can be a curse upon unity and progress, and the bane of sound economic development. We also should recognize, on the other hand, that sectionalism has at times become a defensive necessity against selfish, shortsighted and indefensible encroachments upon the economic sovereignty and freedom of some areas by richer and more powerful neighbors. I am not here to rake over or aggravate such old quarrels, but rather to suggest most earnestly to the committee that one of the greatest services it can do toward strengthening our national economy will be to foster every possible step that will help eliminate the major evils of regionalism, and thereby to reduce or remove economic regionalism itself. By what specific steps this progress toward a more united economy can be achieved I shall attempt to outline. But whatever the specific methods used, I am convinced that the importance of a recognition by the Congress of the large field for economic improvement through proper regional development can hardly be overestimated.

On the question of regional development, the President's report said: "Here the problem is one of realizing the tremendous economic potential of regional programs in development of power and effective means of flood control and irrigation; in improvement of facilities for transportation by land, by inland waterway and by air, and in farsighted management of public lands. Such programs can benefit the entire Nation by promoting regional prosperity, and through sound community development, reviving stranded and depressed areas across the country. Appropriations for these purposes should be considered as capital investment rather than expenditures, as in most instances they are wealth-producing and self-liquidating."

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Given power, given reasonable and scientifically devised freight rates, given opportunity and protection for small business and industry, the industrial growth of the region on a scale commensurate with its natural position in the very heart of the country would be steady and wealth-producing in many directions. It would, for example, provide employment for our surplus farm population, for those who leave the ranches for other employment. Many of these are lost to the community because they have to go elsewhere for jobs. It would prevent out-migration of many others in the labor supply who travel from us for the same reason. It would put a stop to most of the loss of one of our most precious assets—young men and women trained in technical and professional skills in our fine colleges and universities, many of whom are forced upon graduation to find elsewhere the very beginnings of their careers. We lose not only their immediate usefulness, but their future community leadership.

The nonferrous mineral resources of the region are still large and of great value to the high level economy of maximum production which we must have to sustain ourselves and assist Europe. Opening of regional industrial doors now closed would stimulate such mining by affording local outlets for the product, by making profitable recovery from low-grade ores, and by encouraging exploration and development. Mining would be more closely woven into the regional economy, and through that means the national economy as well. At this time, having done a superb job in war production at a time of perilous need, mining men are facing the future with uncertainty. The relation of labor costs to prices; the relation of their industry to world economy; doubt as to future Government policies, and the constant increase of substitutes makes the mining picture less than rosy. Either directly or through regional industrialization, encouragement and help should be accorded that industry.

One further item in the President's program deserves a mention here—the need for "farsighted management of public lands." Public lands, theoretically at least, are for the use, enjoyment, and benefit of all the people. I suggest to the committee that a thorough study should be made, thoroughly and completely, to learn whether the vast area of public lands are actually of such use, enjoyment, and benefit in the most practical sense. It is, I know, a very broad and controversial field. But if public lands policies make of public lands a liability to the economy, either regional or national, then those policies ought to be changed to make public lands a more useful asset to all.

In all the regions where regional development such as the Economic Report contemplates is possible, there is a very lively interest among the people most intimately concerned. Careful and thorough studies on the practical level are being made. For example, a few weeks ago leaders of industry, labor, finance, transportation, agriculture, mining, the consumer interest and education from eight or more States met in a 2-day conference on regional economic and industrial development, under sponsorship of the University of Denver. A few days from now a conference on labor, agriculture, and industry under the auspices of the University of Wyoming, will be held in that State. These people are awake and eager to build more fully their share of America's total strength. They are just as determined to give the same unstinted service to the winning of the peace as they gave to winning the war. They need the encouragement sound Government policy can give them along the lines indicated—less help for monopolistic business and more help for small business and industry; more equitable rates for transportation; no false economy on power and reclamation projects; elimination of discriminatory practices that help maintain economic vassalage. In response to that kind of regional Marshall plan, so to speak, the economically weaker regions of this country will prove their strength, their productive ability and capacity and their stature as full partners in an American economy that can meet any test.

I thank the committee for the opportunity of presenting these views.

The CHAIRMAN. The committee will adjourn and will meet tomorrow in room 324.

(Whereupon, at 1 p. m., the committee adjourned until 10 a. m. Thursday, July 17, 1947.)

CURRENT PRICE DEVELOPMENTS AND THE PROBLEM OF ECONOMIC STABILIZATION

THURSDAY, JULY 17, 1947

CONGRESS OF THE UNITED STATES,
JOINT COMMITTEE ON THE ECONOMIC REPORT,
Washington, D. C.

The committee met, pursuant to adjournment, at 10 a. m., in room 324, Senate Office Building, Senator Robert A. Taft (chairman) presiding.

Present: Senators Taft (chairman), Myers, Watkins, and Flanders.

Also present: Staff members Charles O. Hardy, Fred E. Berquist, and John W. Lehman, clerk.

The CHAIRMAN. The committee will come to order.

Dr. Robert Eggert, representing the American Meat Institute, is the first witness.

STATEMENT OF DR. ROBERT EGGERT, REPRESENTATIVE, AMERICAN MEAT INSTITUTE, CHICAGO, ILL.

Mr. EGGERT. I have prepared a statement that contains quite a number of charts and tables.

The first eight pages contain an explanation of how meat prices are established. The second section deals with how supply and demand have affected meat prices since OPA price fixing was ended, and section 3 deals with factors affecting the outlook for meat prices in the period ahead.

I would like to read the first eight pages and from then on we will look at some of the charts and tables and discuss them.

The CHAIRMAN. All right; you may proceed.

Mr. EGGERT. We greatly appreciate the opportunity to appear befor the Joint Committee on the Economic Report to discuss the current meat supply and price situation. Many false and misleading statements have been made about meat prices in recent months. It will be our aim to present an objective, factual statement about the various factors affecting meat prices since OPA price fixing was ended.

We concur with the basic objectives of the committee in the development of a policy to prevent or alleviate economic depressions as a means of preserving liberty and the American way of life, and are hopeful that some sound way will be found for achieving this objective and still preserving the manifold benefits of our competitive system of free enterprise.

However, this testimony, as requested, will be limited to the economic aspects of the meat industry as they relate to the competitive nature of the industry and the current meat supply and price situation.

This statement, therefore, has been divided into three sections:

1. How meat prices are established;
2. How supply and demand have affected meat prices since OPA price-fixing was ended; and
3. Factors affecting the outlook for meat prices in the period ahead.

1. HOW MEAT PRICES ARE ESTABLISHED

Most consumers have observed that meat prices move up or down from day to day, week to week, season to season, and year to year. The price fluctuations in meat are in sharp contrast to those of many other commodities that have a more or less rigid price. Our objective in this section will be to explain why meat prices fluctuate more frequently than prices of other commodities, and to develop specifically how meat prices are established.

The meat-packing industry is made up of some 4,000 commercial slaughterers located in all areas of the United States. The Department of Agriculture has 26,000 with permits, but they are retailers and wholesalers and so on, but we compute it at 4,000 slaughterers.

These slaughterers compete in the process of buying livestock from farmers in areas where meat animals are produced or marketed, in disassembling, improving, and moving the product to areas of consumption, and in selling and delivering the meat to retailers and other users. These essential services have been performed over a long period of years with the meat-packing industry adapting itself to the desires of farmers in regard to methods they prefer in selling their livestock, to the changing production areas for livestock, to the developments in improved refrigeration and motor transportation, and to the many other technological advances that have occurred in recent years.

The function of the industry was described aptly in a recent study by the Federal Reserve Bank of Chicago, as follows:

> The major function of the industry is to convert the supply of meat animals marketed by farmers into meat and other byproducts desired by consumers and to distribute these products with minimum price disruptions—a problem of major proportions since the leading products are highly perishable and the industry has no direct control over the volume of either its raw material or output.

I would like to emphasize that last part.

The answer to the question of why prices fluctuate so frequently hinges largely around the economic characteristic of an industry that (*a*) has no control over the flow of its raw material; nor (*b*) very little control over the flow of the finished product, and (*c*) cannot anticipate its costs for any length of time in the future. For the most part meat is highly perishable and storage costs are relatively expensive.

Let us first examine the supply side of the equation and weigh in more detail the effects of the fact that the meat-packing industry has little or no control over the flow of its raw material nor the perishable products it processes. According to the 1945 Census of Agriculture, cattle and calves were produced on 4.7 million farms, hogs on 3.3 million farms, and sheep and lambs on 450,000 farms and ranches. The amount produced on these farms depends largely upon the amount of feed and forage produced, and the relative price of these feeds, compared with the price of meat animals.

A large supply of feed and forage usually means that farmers make the decision to grow more livestock; a small supply means that they will grow less. Weather, feed conditions, and biologic factors determine largely when live animals are born and the length of the feeding period.

When livestock has been raised and fed to market weights, they must be marketed rather promptly. If kept beyond the proper marketing time they make very inefficient use of additional quantities of feed. So even the livestock producer doesn't have too much control over the time of marketing after the livestock has been produced and prepared for market, although he makes the final decision on when to sell or not to sell. That is a point frequently misunderstood—that this livestock has to be marketed in a comparatively short range of time.

The short time swings, as well as the seasonal and annual fluctuations in the number of livestock that farmers send to market, therefore, have considerable effect on meat prices, since they result in corresponding changes in the supply of meat. In fact, the price of meat can be measured roughly by dividing the current supply into the amount of money people are spending on meat.

The fact that meat packers have no control of supply, therefore, automatically results in a change in meat prices when supplies change, unless offset by a corresponding change in the demand for meat. This is especially true since the products are largely perishable and cannot be stored for long in any appreciable quantities. Now, the industry does store from winter months to summer months, but that is a comparatively small supply.

To complete an understanding of why prices change, however, we must examine the demand side of the equation. What the average American family is willing to spend for meat depends largely upon its income. In a comprehensive study soon to be published, Prof. E. J. Working, of the University of Illinois, has found that the total value of all meat consumed fluctuated closely around an annual average of about 6½ percent of the total disposable income. This close relationship was also demonstrated recently in a study made by the Federal Reserve Bank of Chicago, as will be observed in the chart on page 543, which shows the extremely close relationship between disposable income and the value of meat production.

I think we ought to look at this chart for a moment because it does bring out this very close relationship between meat prices, the supply of meat, and disposable income. The black line shows wholesale meat prices and the dotted line meat production; the vertical column in black represents disposable income and the cross-mark column shows the value of meats.

Just how is this increased demand reflected in meat prices? When families have their incomes increased, if they have been going without meat or eating only a small quantity, they usually increase their consumption by buying more meat from retailers. They may also go to the restaurants more often.

The hour or day that retailers see their meat stocks declining, in response to this greater demand of consumers, they increase their purchases from the meat packer. This increased demand naturally results in a rise in meat prices, which is reflected back by competition in higher livestock prices, unless supplies, meanwhile, have increased. If the supplies have increased they may offset those increases in demand. If prices did not rise, and I would like to make this clear again, because it is the reason why we had the black market under OPA, meat packers quickly would run short of supplies and be unable to take care of the requirements of all of their retail customers.

In other words, price serves to balance the available supply with the desire of and ability to pay by customers. Price in itself, therefore, is a rationer of product. Meat prices are the result of a balance in the supply and demand.

Price levels in the meat-packing industry result from the competitive working back of consumer demand for any given supply of meat—in a disassembling operation—quite in contrast to many other products, in an assembling operation, for which prices can be established by taking a forward look at costs, the volume a given price will sell, the attitude of competitors, and similar factors.

In periods of declining consumer incomes, the situation described above is completely reversed. In other words, the first illustration was where demand increased. Now let us take a look at the situation when demand drops. Under such conditions, the retailers find that they have great difficulty in selling the stocks of meat in their coolers. They, therefore, buy more sparingly from meat packers. The meat packers immediately notice that their perishable products are not moving into trade channels as rapidly as they should, and unless supply decreases—over which they have no control—they are forced to reduce meat prices, which is reflected back into livestock prices, to a point where retail buyers and, in turn, meat customers again will be attracted.

In other words, as soon as wholesale prices have declined sufficiently, retailers again become ready buyers because they can offer attractive bargains to fit the shrinking pocketbooks of their customers. A decrease in demand reflects itself back in terms of lower wholesale prices and lower livestock prices.

Additional evidence of the close relationship between meat consumption and income is shown in the following table titled "Meat Consumption by Income Groups."

This table shows the estimated quantity of and expenditure for meats and lard purchased for preparation at home by wage earners and clerical workers for 1 year.

I think this table brings out this relationship pretty well between consumer and income, and the amount of meat they purchase and the amount of money available for purchases.

Let us take the porterhouse and sirloin steaks. You will notice the average consumption for all families was 7.7 pounds, but those who spent under $400 on a family unit basis, they consumed only 4.5 pounds; the middle group, from $400 to $600, 8.4 pounds; and those over $600, 14.2 pounds.

Let us go to pork chops, and you will see that the average for all families was 6.8 pounds; 5.2 pounds for families in the $400 class; 7.4 pounds for families in the middle class; and 9.5 pounds for the highest class.

Now I want to point out some exceptions. If you will go down to salt side of pork, you will notice that the average consumption is 1.4, but that the low-income group consumes 1.7 pounds, and the middle group 1.1 pounds, that the high only 0.9, indicating just a reverse situation on some kinds of meat.

But for the most part meat has a high-income elasticity and you will notice that the total goes up, indicating clearly that as consumer income increases they do buy more meat.

The expenditures go up even more because there is a tendency to buy higher-priced cuts.

Some of you may want to give that table some study later on, but it does bring out this fact about meat consumption and expenditures that meat is very closely related to consumer income.

An increase or decrease in meat prices, as a result of changes in supply and demand, through the process described above, is reflected promptly by competition into the price of meat animals. A chart, titled "Wholesale Meat and Livestock Prices, Production Workers' Pay Roll, and Per Capita Meat Consumption," to be referred to later in this statement, will bring out this close relationship between meat prices and the price of livestock. Of course, livestock prices also are affected by returns received for lard, hides and other byproducts of the industry.

Furthermore, the total dollars which meat packers take in from the sale of meat and byproducts obviously must cover all of the expenses or processing and distribution services, as well as paying farmers for their livestcok.

The table below shows the distribution of the wholesale meat dollar:

Distribution of the wholesale meat dollar

	1939	1945	1946
	Percent	*Percent*	*Percent*
Total	100.0	100.0	100.0
Livestock and other raw materials	72.3	75.1	73.7
Gross margin	27.7	24.9	26.3
Wages and salaries	14.1	12.0	12.1
Supplies, containers	3.3	4.5	4.0
Transportation	3.8	2.0	2.0
Taxes	1.1	1.6	2.2
Depreciation	1.0	.6	.5
Other charges	3.2	3.3	3.6
Net earnings	1.2	.9	1.9

The figures for 1939 are taken from a report published by the United States Department of Agriculture. The figures for 1945 and 1946 are for 62 companies, constituting about three-fourths of total sales volume of all wholesale slaughterers, as collected by the American Meat Institute.

During recent years, farmers have received a larger part of meat packers' sales dollar than in 1939. This is due to the fact that some costs have not gone up proportionately by the same amount as livestock prices have increased. Also, meat packers have handled a much larger meat volume than prewar, which means that the unit cost of depreciation and some other charges are lower.

There is no way to decide in advance just what proportion of the meat dollar farmers should receive, or whether the figure is too high or too low in any year.

It is definitely to livestock producers' advantage to have livestock products used more widely, and additional processing expenses and sales effort may bring farmers a greater total dollar income from livestock, since consumers get better products.

In other words, increased expenses for a better product or more service at the packing-plant level actually can add to total product values, even though these expenses reduce the proportion going to farmers. Thus a moderate decline in the proportion of the individual wholesale meat dollar going back to livestock raisers may actually mean a net gain in total income to farmers.

The small amount which the meat-packing industry has been able to retain as profit, may be best illustrated by a study of the United States Department of Agriculture, showing that in 1939 packers' profits from all sources averaged 15 cents per hundred pounds of live weight on livestock handled. This corresponds to 16 cents and 41 cents for major packing companies for 1945 and 1946, respectively. Since these figures even include earnings from nonmeat products, it is clear that the earnings of meat packers do not appreciably affect livestock prices.

A National City Bank letter recently summarized the services of the meat-packing industry as follows:

> The record of American meat packing in mass production and distribution maintenance of quality standards, recovery of byproducts, and low cost to the public is probably unexcelled by any industry in any society, whether capitalist, socialist, or Communist.

The CHAIRMAN. How do you account for the higher profit in 1946?

Mr. EGGERT. The 1945 earnings as compared with 1946 earnings do show this substantial increase. Quite a bit of that additional earnings came from outside sources, nonmeat products, the other products handled by the company.

The CHAIRMAN. There was no effort in presenting these figures to separate the earnings?

Mr. EGGERT. They are very difficult to separate. You run into joint cost problems. The problem of separating the earnings from meat as compared to nonmeat items for most companies, is a difficult one.

Competition among some 4,000 commercial meat-packing companies, for farmers' livestock and for retail sales outlets, will continue to keep livestock prices as high and product prices as low as is consistent with (1) the supplies of meat available, (2) the funds which consumers are able and willing to spend for meat, and (3) the expenses of performing the necessary processing and distribution services.

Now we come to the second section in which you are most interested, how supply and demand has affected meat prices since OPA price fixing was ended.

Rather than read it, let us take a look at the next chart. This chart goes back to 1926 and the first half of it shows the annual change and the last half of it brings out the detail from June 1946 and shows the weekly changes in livestock and meat prices and industrial workers' pay rolls.

The point that we would like to stress first is that these industrial-worker pay rolls show a very close relationship to wholesale meat prices, as you can see in the earlier years. In the late twenties and early thirties the pay rolls go down and livestock and meats follow closely, showing the effect of consumer income on price of meat and livestock, and this relationship continues with the increase in the late thirties. You get this wide spread especially accentuated during the period of price control. The chart clearly shows the big gap between pay rolls and wholesale price of meat.

You will note in 1942, 1943, 1944, and 1945 there is a difference between the black line which is meat prices and the dotted line showing livestock prices, and that difference is accounted for by the subsidy.

Senator WATKINS. You have two dotted lines.

Mr. EGGERT. The dashed line I believe would be better. The dotted line is the pay-roll index which includes the earnings of industrial workers.

The CHAIRMAN. It is the gross pay roll?

Mr. EGGERT. It is the gross pay roll.

The CHAIRMAN. It is not the rate per hour?

Mr. EGGERT. It is not the rate per hour. I want to make that clear. We feel that the increase in total pay rolls has been an important factor.

Let us look at the last half of the chart. All those pay-roll series are available only on a monthly basis. You will notice in June 1946 that the subsidy spread between livestock prices and meat prices exists there. The subsidy was still in effect. When controls were taken off in July, the meat prices naturally went up more than livestock prices. Keep in mind that these are published figures rather than real prices.

The CHAIRMAN. These are OPA ceilings?

Mr. EGGERT. These are OPA ceilings.

That same spread between livestock and meat prices comes into the picture when controls were taken off in October because of the empty pipe line. There was very little meat.

You will notice the black line representing meat prices goes up to an index slightly above the 250 mark, increasing from roughly 125 to 130 up to an increase of about 250. That drops off sharply after the pipe-line filling has taken place and the index reached a low in the latter part of January 1947, of about 179. I do not have the exact figures with me. Last week the wholesale meat index was 214, keeping in mind that 1926 equals 100, and the wholesale meat price last week stood at 214.

Livestock prices have not quite kept up to the meat level because the price of lard has dropped from 31½ to 16½ cents a pound, a very sharp drop. Some of the other byproducts have not advanced as much as meat.

This chart brings out the close relationship between pay rolls, meat and livestock prices, and indicates that these prices are still low in terms of gross pay roll of production workers.

The CHAIRMAN. Is this the gross pay roll of production workers in the meat industry?

Mr. EGGERT. No.

The CHAIRMAN. This is the whole?

Mr. EGGERT. This is the gross industrial pay roll throughout the country.

Senator WATKINS. Throughout the country.

Mr. EGGERT. Throughout the country. It represents somewhere between 13,000,000 and 15,000,000 workers. We used that because changes in income of this group seem to be closely associated with changes in meat prices. The pay rolls received by this group were used because they bring out clearly the fact that more are employed and at higher rates.

The CHAIRMAN. These are wholesale meat prices?

Mr. EGGERT. Yes, these are wholesale meat prices.

You will notice from the middle of May the wholesale price has gone up. From May it is about a 5 percent increase. I want to bring out the point if you take disposable income, and I do not have the latest estimate from the Department of Commerce, but we have made our own estimate of about 156,000,000,000 dollars and compare that with 1926 of 73.2 billion dollars and it has increased 213 percent almost exactly the same as the increase in meat.

Senator WATKINS. From prewar times?

Mr. EGGERT. From 1926, more than double.

The CHAIRMAN. I do not quite see the relationship. The volume of meat has also increased certainly?

Mr. EGGERT. Yes; I later show that we now are consuming meat at the annual rate of about 150 pounds of meat per capita, compared with 138 pounds in 1926, only a modest increase.

The CHAIRMAN. I notice the per capita consumption has fallen off from the second quarter, the third quarter, the fourth quarter. In the last quarter of 1946 to the first quarter of 1947 and the second quarter of 1947 is even lower.

Do you account for that because of higher prices of meat?

Mr. EGGERT. The seasonal drop in livestock supplies was largely responsible for that decrease in per capita consumption. We got very heavy marketing in the last quarter of last year. Part of that was used in filling the pipe line. That bar that goes up to almost 175 represents some filling of the pipe line, the 161 for the first quarter of this year which we think is fairly accurate, has dropped to 150, and that difference is due largely to——

The CHAIRMAN (interposing). What difference does that make to the consumer?

Mr. EGGERT. The drop in per capita consumption from 161 to 150 has been a factor that caused that increase in price from the last of January.

The other two factors that contributed are that the average weekly earnings have increased 4 percent from January through June and the number of people employed have increased 40 percent. So you have a drop in per capita meat consumption and an increase in weekly income and an increase in employment—all contributing to a higher price.

The CHAIRMAN. Do you have anything to say further along in your statement as to the corn crop? Is it increasing the supply of meat?

Mr. EGGERT. The poor corn-crop prospects have actually increased the current supply of pork. Actually it is having the effect of keeping prices down currently, but next spring the shorter supply will cause prices to rise.

The CHAIRMAN. What about beef?

Mr. EGGERT. In the case of beef, if a lot of corn is soft, if there is a lot of soft corn, livestock producers will have to use it promptly.

The CHAIRMAN. So there is no anticipated effect from the poor corn crop, but you will cover that later on.

Mr. EGGERT. Yes, Mr. Chairman.

Now, let us take a look at the trend in retail meat prices. The Bureau of Labor Statistics collects retail meat prices along with prices of various other commodities in 51 cities. Since it takes some time to compile the individual price data, the latest official information on retail meat prices available is for the month of May. However, it was shown in the previous chart that the wholesale price index, as published by the Bureau of Labor Statistics, has advanced less than 5 percent since mid-May.

Let us turn to the table.

The first column shows the OPA ceiling price. The second the cost of the subsidy and how the costs of the subsidy were distributed by cuts.

You will notice that for round steak the OPA ceiling was about 42 cents a pound. The relative amount of the subsidy was about 11 cents. The average overcharge is shown in the third column.

Senator WATKINS. What do you mean by average overcharge?

Mr. EGGERT. That is black-market overcharge as indicated by an extensive study made in late February and early March 1946.

Senator WATKINS. Was there any considerable volume of that?

Mr. EGGERT. It was very serious.

Senator WATKINS. How could you determine the volume and price?

Mr. EGGERT. Representatives of two independent market-research agencies went out and bought the meat. It was weighed up by Army people, who graded the meat and weighed the meat. So a very careful check was kept on the real weight and price charged.

This study was brought before several congressional committees last spring, and the Price Decontrol Board in August of last year. It represented a very thorough study of the 11 cities.

Some meat was not above the ceiling. The overcharges shown in the table represent the average of all purchases made rather than just those above the ceiling.

Senator WATKINS. This is retail?

Mr. EGGERT. Retail. So, the total cost to consumer is shown in the fourth column.

Now you will notice retail meat prices for round steak after price control fluctuated somewhat and for May were 69.3 cents per pound.

The CHAIRMAN. The restrictions were off at that time?

Mr. EGGERT. Yes. I think if we had the June figures and July figures it would show some increase.

You will recall wholesale meat prices have gone up about 5 percent since May. In rib roast the difference was not so great. In the case of chuck roast the cost is actually a little less. In the case of hamburger, the total cost to consumers under OPA was 44 cents, and in May it was under 40, so the cost was less than under OPA.

Veal cutlets, leg of lamb, and most pork items have shown the most increase. That is due to two reasons. One is that the supplies of beef have increased more than pork and the second is the black market was not as great in pork as in beef.

Senator FLANDERS. You put in the cost of the subsidy and part of the total cost to the consumer?

Mr. EGGERT. Yes, sir.

Senator FLANDERS. The consumer did not know about that and did not pay it out of his own pocket.

Mr. EGGERT. It comes out of his taxes.

Senator FLANDERS. It comes out of his taxes in such a long-drawn-out way he does not know about paying it.

Mr. EGGERT. It is still there.

Senator WATKINS. He pays it anyhow.

Senator FLANDERS. As a matter of fact, are not the rich people paying that?

Mr. EGGERT. There would be a tendency for them to buy the more expensive cuts, and they pay a higher proportion of the taxes.

Senator FLANDERS. I am not sure that is right.

Senator WATKINS. I am going to ask a question about the average overcharge.

Mr. EGGERT. Yes, sir.

Senator WATKINS. Is it fair to add that average overcharge to the total cost to consumers under price control?

Mr. EGGERT. That is what they were actually paying.

Senator WATKINS. How about the most?

Mr. EGGERT. Those are the average prices of all meat that was purchased in 11 States.

Senator FLANDERS. Both black market and white market.

Mr. EGGERT. That is right.

The CHAIRMAN. Part of this was not pure black market. It was priced higher. Pricing lower grade meat at a higher grade.

Mr. EGGERT. Double A prices were charged for grade A products. This represents the average overcharge.

Senator WATKINS. I was wondering how you could find out with any degree of certainty what was going on in the black market.

Mr. EGGERT. We had shoppers go out and actually buy meat.

Senator WATKINS. On the black market?

Mr. EGGERT. At the average retail store—at random—representative stores in 11 cities. They bought meat from a random sample of retail stores. This meat was weighed and graded, and compared with the OPA ceiling and this was the average overcharge.

The CHAIRMAN. We had testimony the Bureau of Labor Statistics in New York had two indexes of retail price, and the OPA finally persuaded them not to send in the real index but the OPA ceiling. That was the testimony of the OPA administrator in New York City, Mr. Wooley, I believe. The Bureau of Labor Statistics prepared two.

Senator WATKINS. That is not in the theoretical price.

Mr. EGGERT. This represents the real price.

The CHAIRMAN. I think it is fair to say when this was presented last year OPA disputed it.

Senator WATKINS. I would think they should dispute it. They were not enforcing it.

Mr. EGGERT. This is the charge the consumers were having to pay over the retail counter. The study was conservative. The shoppers probably did not know where the real black-market stores were.

Senator WATKINS. I had the impression when you first started this probably represented ceiling sales.

Mr. EGGERT. No, sir.

Senator WATKINS. These were in stores regularly licensed and at ceiling prices?

Mr. EGGERT. Yes, sir.

Senator WATKINS. They were actually getting above the posted price?

Mr. EGGERT. Yes. About 83 percent of all the stores had one or more cuts over the ceiling.

A lot of that was not deliberate, as Senator Taft indicated as they may have been selling A grade beef at Double A prices. This represents the average overcharge, and as I say, my opinion is that it is a conservative statement. First of all it was in February and March when the black market was not nearly as serious as it developed in May and June. It is clear that these were realistic overcharges.

The CHAIRMAN. What do you think is the main reason for the high prices today?

Mr. EGGERT. Meat prices are increasing as the result of the sharp increases in consumer incomes. Higher incomes have been partially offset by increases in supply.

The CHAIRMAN. The 160-pound-per-person demand against the supply of meat?

Mr. EGGERT. Yes, sir.

Senator WATKINS. How about exports?

Mr. EGGERT. I will cover that export factor in just a moment.

The facts show that disposable income has gone up from $73,000,000 in 1926 to $156,000,000 in 1947, and that increase has been almost exactly in correspondence with meat prices.

Page 14 contains a table entitled "Retail Meat Prices and Calculated Pounds of Meat Equivalent of Manufacturing Workers' Weekly Earnings." Let us look at it. The first column shows prices in May 1939, as reported by the Bureau of Labor Statistics. The second column shows the 1947 May prices for meat. The third and fourth column of figures are calculated from average weekly earnings of workers in all manufacturing industries, as published by the Bureau of Labor Statistics, and show the pounds of meat equivalent of 1 week's earnings in May 1939, when earnings were $23.84, and in May 1947, when they were $48.86.

Senator WATKINS. The weekly income?

Mr. EGGERT. Yes.

The CHAIRMAN. The cost of living has only gone up about 56 percent in all items and meat about 100 percent.

Mr. EGGERT. Meat is about double. The weekly earnings are a little over double. There are two exceptions, pork chops and sliced bacon; but in case of five out of these seven cuts, the weekly earnings in 1947 would buy more than the earnings in May 1939.

The CHAIRMAN. I think you have got to allow something like about 20 percent generally, maybe.

Why has meat gone up more than other things? The question is, Is the degree of increase too much?

Mr. EGGERT. The degree of increase corresponds closely to the increase in average earnings. Meat has this high-income elasticity. When consumer income goes up, they want more meat. This isn't true in the case of many things consumers buy.

Now, page 15. You raised the question of exports, and I try to cover it here.

A final factor contributing to the current meat-price situation is the large quantities of feed grains exported from the country during the past year. A recent report of the Cabinet Committee of World Food Problems indicated that the United States has exported 4,538,000 long tons of grains other than wheat. I want to make that clear. We do not include wheat in those figures. I think there are some detailed figures being given you of what proportion these exports are to the total production.

Since a short ton of feed grains will feed two hogs to market weight, and since each hog will contribute about 140 pounds of meat, exports of grain, other than wheat, have reduced per capita meat supplies by about 10 pounds, assuming this feed would have been fed to meat animals. Exports of grain have contributed to reduce the supplies of meat over what they would have been. Exports of wheat to the extent of 10,520,000 long tons also have contributed to keeping meat supplies smaller than they otherwise would have been.

Exports of meat, on the other hand, amounted to 224,000 long tons, or about 3½ pounds per capita. That is shown in this table. However, in recent months exports of good and commercial grades of beef have amounted to about 15 percent of these two grades of beef produced under Federal inspection, definitely affecting prices of these important retail grades of beef.

Senator TAFT. What about the Army buying? Is that a great factor?

Mr. EGGERT. The Army is still buying some meat, but their buying has dropped sharply from a year ago. The last figures I recall on Army buying indicate that they were taking about 150,000,000 pounds a quarter. That would be about equal to one-half of 1 week's production under Federal inspection. The percentage would not be large. It would be about 3 percent.

Senator WATKINS. They are able to supply the demand now?

Mr. EGGERT. No; the price itself is the equator between supply and demand. There is no scarcity. That is quite in contrast with a year ago.

The CHAIRMAN. We can buy meat if we can pay for it?

Mr. EGGERT. Yes, and the price is the equator between supply and demand. That is the factor that determines the price.

The CHAIRMAN. As a matter of fact there was more in pork than on beef.

Mr. EGGERT. Yes. Now the third section, factors affecting the outlook for meat prices in the period ahead.

The CHAIRMAN. We have to quit rather quickly. The sum total of your testimony seems to be the price of meat is due to supply and demand for meat.

Mr. EGGERT. Yes, Senator. We might go over these tables rather rapidly.

Page 17 shows that our per capita consumption this year will be 155 pounds. This is the largest per capita supply we have had since 1909.

Senator WATKINS. That is at least 5 pounds under what you say we have consumed.

Mr. EGGERT. That is shown in the next table. Let us take a look at table 2. We worked out quarterly rates. In the first quarter we consumed 161 pounds, in the second quarter, 150; in the third, 146, and the fourth quarter, 165. When you take that for the whole year, since these are on an annual rate basis it amounts to about 155, the average for the year.

Senator WATKINS. I was going by one of your previous charts. You said 160 which you thought would be more or less normal.

The CHAIRMAN. That is on the price?

Mr. EGGERT. No; the amount consumed depends on the amount of livestock coming to market. That depends on the price the farmers receive for livestock as compared to the price of grain and the amount of feed available.

The big thing that has affected price has been the increase in demand. I think that an encouraging factor is the increased supply we will have in the last quarter of the year.

Senator WATKINS. That is the normal increase shown for every year, is it not?

Mr. EGGERT. The normal increase is not quite as extensive as that. It is very near normal. The normal increase is 135 to 149. Of course cattle will be coming in and we will have heavy marketings from the spring pig crop.

Let us just bypass all of this material in between and I would like to show you this chart on page 24.

This chart shows prices back to the year 1750, and that is a long time. The black line represents wholesale prices for all commodities and the dotted line represents wholesale meat prices. You will note in the Revolutionary War the index of all commodities went to 175, slightly over 150 in World War I and now we are at about 150.

Meat prices follow very closely. The same factors that affect wholesale prices, in general also affect meat prices although meat prices are more volatile.

I think this chart brings out the fact we are at a high level of price and that after every war price levels tend to drop off sharply.

If I could summarize quickly now—there are only about three pages.

Senator WATKINS. What page are you on now?

Mr. EGGERT. Page 25. Meat price fluctuations are largely the result of changes in real consumer incomes, including pay rolls and number of people employed, and changes in the available supply of meat for consumption and for export.

Retail meat prices were about double the 1939 level, according to the latest survey—May 1947—in 51 cities by the Bureau of Labor Statistics, but average weekly earnings of production workers were more than double the 1939 level and, due to the increase in number of workers employed, weekly pay rolls of production workers were over triple that in 1939. When consumers have jobs and high real income they are especially eager and more able to buy meat.

The CHAIRMAN. Incidentally, the other families not covered in this index of production workers did not have the same increases?

Mr. EGGERT. That is right, and if everybody had received the same increase we would see meat prices correspond even more closely to the pay roll.

The supply-and-demand factors are reflected promptly in meat prices and, in turn, in livestock prices, since there is keen competition among some 4,000 commercial slaughterers to buy livestock, over whose volume the meat packing industry has no control, and to sell meat, most of which is highly perishable. Farmers' costs also have increased sharply.

The weekly earnings of an average production worker, as reported by BLS, in May 1939, was equal in value to 100 pounds of chuck roast, 66 pounds of round steak, or 79 pounds of rib roast. This compares with weekly earnings in May 1947, which, according to the Bureau of Labor Statistics' fiures, were equal in value to 106 pounds of chuck roast, 70 pounds of round steak, or 86 pounds of rib roast. In other words, production workers could buy more of these items with their current weekly incomes than they could buy with their weekly incomes in 1939. Others, whose incomes have not increased could not buy as much.

While meat prices have advanced since OPA controls were lifted, the increase in real cost of meat to consumers has not increased as much as a comparison of current prices and fictitious OPA ceilings would indicate. In fact, when allowance is made for black market overcharges, as determined by independent market research agencies, and the subsidies that consumers paid indirectly in their tax bill, some meat cuts, such as chuck roast and hamburger, according to the latest data—May 1947—are actually selling at, or below, the actual cost of meat to consumers under OPA.

Meat prices have advanced since January 1947 as a result of:

(*a*) A seasonal decrease of 10 to 15 percent in per capita supplies of meat, and that is due to seasonal decrease in production.

(*b*) A further increase in weekly earnings of production workers, of about 4 percent, to an all-time high, and

(*c*) A record all-time peak of 60,000,000 employed—up about 4 percent from January 1947. The number of people employed over-all has increased 14,000,000 since 1939, and about 13½ million are in nonagricultural industry.

The decrease in seasonal per capita meat supplies results largely from a normal seasonal drop in livestock supplies, which lowers meat production, and from the fact that current storage stocks of meat are smaller than the prewar average. For example, meat production under Federal inspection last week—week ending July 12—was 295,000,000 pounds. This compares with the production during the peak week of the year—week ending January 18—of 431,000,000 pounds. That is a factor which explains why our per-capita consumption has gone down.

Meat production last week, therefore, was nearly one-third below the peak for the year.

Per capita meat consumption for 1947 is expected to be about 155 pounds, the largest since 1909. However, during the Government's fiscal year, ending June 1947, exports of grain, other than wheat, have reduced per capita meat supplies by about 10 pounds, over what they otherwise could have been, had an equivalent amount of feed been fed to meat animals. Exports of meat, on the other hand, have amounted to only about 3½ pounds per capita—although in recent months exports of good and commercial grade beef have amounted to about 15 percent of these grades of beef produced under Federal inspection.

Net earnings in the meat-packing industry make no appreciable difference in the price consumer pays for meat. For example, last year earnings averaged about 2 cents on each dollar's worth of product sold—or less than a fraction of a cent a pound.

A seasonal increase in livestock marketings by fall and winter is expected to increase available supplies of meat by about 15 percent, which, unless offset by further wage increases and other demand factors, is expected to lower prices moderately from the levels prevailing this summer.

The present unfavorable outlook for feed grains, as compared with a year ago, and prospects for large grain exports, are expected to prevent the increase in meat production that seemed probable in 1948, and may actually result in some decrease, depending upon the effect of weather conditions on the corn crop throughout the remainder of the growing and maturing season. Actually feed supplies per animal unit are going to be fairly large compared with prewar, although they will be less than we need.

The long-range outlook for meat supplies appears more favorable than the short-range outlook analyzed in this report. Hybrid corn and wider use of improved varieties of seeds for other feed grains, hay and pasture, further improvement in machinery and equipment, and further reduction in horse and mule numbers, is expected to increase even more than the future supply of feed for meat animals. Then, too, it appears probable that livestock production techniques will undergo rapid improvements in the near future, and that the public has become more conscious of the value of meat in the diet. All in all, this should mean more meat for consumers in the years ahead.

Thank you very much.

The CHAIRMAN. Thank you, Dr. Eggert. You think at any rate you have a highly competitive situation in meat.

Mr. EGERT. Yes, we have no control of production and meat prices are very sensitive to demand and supply factors.

The CHAIRMAN. Any questions?

Senator WATKINS. I have none.

(The paper submitted by Dr. Eggert follows:)

MEAT PRICE FACTS[1]

We greatly appreciate the opportunity to appear before the Joint Committee on the Economic Report to discuss the current meat supply and price situation. Many false and misleading statements have been made about meat prices in recent months. It will be our aim to present an objective, factual statement about the various factors affecting meat prices since OPA price fixing was ended.

We concur with the basic objectives of the committee in the development of a policy to prevent or alleviate economic depressions as a means of preserving liberty and the American way of life, and are hopeful that some sound way will be found for achieving this objective and still preserving the manifold benefits of our competitive system of free enterprise. However, this testimony, as requested, will be limited to the economic aspects of the meat industry as they relate to the competitive nature of the industry and the current meat supply and price situation.

This statement, therefore, has been divided into three sections:

I. How meat prices are established.

II. How supply and demand has affected meat prices since OPA price fixing was ended.

III. Factors affecting the outlook for meat prices in the period ahead.

[1] Presented before the Joint Committee on the Economic Report, Congress of the United States, July 17, 1947, by R. J. Eggert, associate director, department of marketing, American Meat Institute, Chicago, Ill.

I. HOW MEAT PRICES ARE ESTABLISHED

Most consumers have observed that meat prices move up or down from day to day, week to week, season to season, and year to year. The price fluctuations in meat are in sharp contrast to those of many other commodities that have a more or less rigid price. Our objective in this section will be to explain why meat prices fluctuate more frequently than prices of other commodities, and to develop specifically how meat prices are established.

The meat-packing industry is made up of some 4,000 commercial slaughterers, located in all areas of the United States. These slaughterers compete in the process of buying livestock from farmers in areas where meat animals are produced or marketed, in disassembling—improving—and moving the product to areas of consumption, and in selling and delivering the meat to retailers and other users. These essential services have been performed over a long period of years with the meat-packing industry adapting itself to the desires of farmers in regard to methods they prefer in selling their livestock, to the changing production areas for livestock, to the developments in improved refrigeration and motor transportation, and to the many other technological advances that have occurred in recent years.

The function of the industry was described aptly in a recent study by the Federal Reserve Bank of Chicago, as follows:

"The major function of the industry is to convert the supply of meat animals marketed by farmers into meat and other byproducts desired by consumers and to distribute these products with minimum price disruptions—a problem of major proportions since the leading products are highly perishable and the industry has no direct control over the volume of either its raw material or output."

The answer to the question of why prices fluctuate so frequently hinges largely around the economic characteristic of an industry that (*a*) has no control over the flow of its raw material; nor (*b*) very little control over the flow of the finished product; and (*c*) cannot anticipate its costs for any length of time in the future. For the most part, meat is highly perishable and storage costs are relatively expensive.

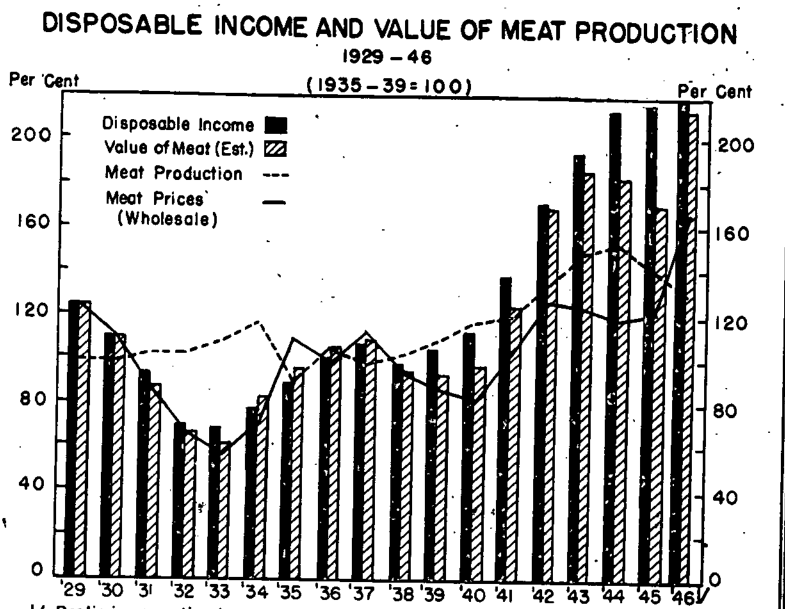
Let us first examine the supply side of the equasion and weight in more detail the effects of the fact that the meat-packing industry has little or no control over the flow of its raw material nor the perishable products it processes. According to the 1945 Census of Agriculture, cattle and calves were produce on 4.7 million farms, hogs on 3.3 million farms, and sheep and lambs on 450,000 forms and ranches. The amount produced on these farms depends largely upon the amount of feed and forage produced, and the relative price of these feeds, compared with the price of meat animals. A large supply of feed and forage usually means that farmers make the decision to grow more livestock; a small supply means that they will grow less. Weather, feed conditions, and biologic factors determine largely when live animals are born and the length of the feeding period.

When livestock has been raised and fed to market weights, they must be marketed rather promptly. If kept beyond the proper marketing time they make very inefficient use of additional quantities of feed. So even the livestock producer doesn't have too much control over the time of marketing after the livestock has been produced and prepared for market, although he makes the final decision on when to sell or not to sell.

The short-time swings, as well as the seasonal and annual fluctuations in the number of livestock that farmers send to market, therefore, have considerable effect on meat prices, since they result in corresponding changes in the supply of meat. In fact, the price of meat can be measured roughly by dividing the current supply into the amount of money people are spending on meat. The fact that meat packers have no control of supply, therefore, automatically results in a change in meat prices when supplies change, unless offset by a corresponding change in the demand for meat. This is true especially since the products are largely perishable and cannot be stored for long in any appreciable quantities.

To complete an understanding of why prices change, however, we must examine the demand side of the equation. What the average American family is willing to spend for meat depends largely upon its income. In a comprehensive study soon to be published, Prof. E. J. Working, of the University of Illinois, has found that the total value of all meat consumed fluctuated closely around an annual average of about 6½ percent of the total disposable income. This close relationship was also demonstrated recently in a study made by the Federal Reserve Bank of Chicago, as will be observed in the chart on the following page, which shows the extremely close relationship between disposable income and the value of meat production.

(The chart referred to is as follows:)



1/ Preliminary estimates.
Sources: U. S. Department of Commerce, U. S. Bureau of Agricultural Economics, and U. S. Bureau of Labor Statistics. REPRODUCED FROM STUDY MADE BY RESEARCH DEPARTMENT – FEDERAL RESERVE BANK OF CHICAGO, DECEMBER 1946.

Just how is this increased demand reflected in meat prices? When families have their incomes increased, if they have been going without meat or eating only a small quantity, they usually increase their consumption by buying more meat from retailers. The hour or day that retailers see their meat stocks declining, in response to this greater demand of consumers, they increase their purchases from the meat packer. This increased demand naturally results in a rise in meat prices, which is reflected back by competition in higher livestock prices, unless supplies, meanwhile, have increased. If prices did not rise, meat packers quickly would run short of supplies and be unable to take care of the requirements of all of their retail customers. In other words, price serves to balance the available supply with the desire of and ability to pay by customers. Price in itself, therefore, is a rationer of product.

Price levels in the meat-packing industry result from the competitive working back of consumer demand for any given supply of meat, in a disassembling operation—quite in contrast to many other products—in an assembling operation, for which prices can be established by taking a forward look at costs, the volume a given price will sell, the attitude of competitors, and similar factors.

In periods of declining consumer incomes, the situation described above is completely reversed. Under such conditions, the retailers find that they have great difficulty in selling the stocks of meat in their coolers. They, therefore, buy more sparingly from meat packers. The meat packers immediately notice that their perishable products are not moving into trade channels as rapidly as they should and, unless supply decreases (over which they have no control), they are forced to reduce meat prices, which is reflected back into livestock prices, to a point where retail buyers and, in turn, meat customers again will be attracted. In other words, as soon as wholesale prices have declined sufficiently, retailers again become ready buyers because they can offer attractive bargains to fit the shrinking pocketbooks of their customers.

Additional evidence of the close relationship between meat consumption and income is shown in the following table titled "Meat Consumption by Income

Groups." This table shows the estimated quantity of and expenditure for meats and lard purchased for preparation at home by wage earners and clerical workers for 1 year.

Meat consumption by economic groups—estimated quantity of and expenditure for meats and lard purchased for preparation at home by wage earners and clerical workers for 1 year, by consumption level

[14,469 white and Negro families in 42 cities in 1934–36]

Item	Average quantity purchased per person in 1 year				Average expenditure per person in 1 year			
	All families	Families with total annual unit expenditure for all goods and services of—			All families	Families with total annual unit expenditure for all goods and services of—		
		Under $400	$400 to $600	$600 and over		Under $400	$400 to $600	$600 and over
Beef:								
Fresh:								
Steak:		*Lb.*	*Lb.*	*Lb.*				
Porterhouse, sirloin	7.7	4.5	8.4	14.2	2.39	1.29	2.48	4.72
Top round	5.3	4.0	6.3	7.0	1.47	1.03	1.75	1.99
Other	5.1	4.7	5.2	5.6	1.05	.89	1.14	1.26
Roast:								
Rib	7.6	5.7	7.8	11.5	1.88	1.31	1.94	3.06
Chuck	5.3	5.1	5.6	5.7	1.13	1.03	1.18	1.24
Other	2.5	2.1	2.9	3.2	.62	.46	.71	.81
Boiling:								
Chuck	4.4	4.4	4.7	3.9	.84	.79	.93	.82
Plate	.8	.8	.7	.7	.13	.13	.12	.15
Other	2.0	1.8	1.9	2.3	.36	.31	.35	.47
Other beef	1.9	1.5	2.3	2.3	.44	.32	.53	.55
Veal:								
Fresh:								
Steak, chops	4.1	2.8	4.6	6.2	1.12	.69	1.28	1.87
Roast	2.8	2.3	3.1	3.5	.64	.49	.70	.84
Stew	1.6	1.5	1.6	1.8	.30	.27	.31	.37
Lamb:								
Fresh:								
Chops	3.1	1.6	3.5	6.2	.94	.44	1.05	1.91
Roast	4.0	2.3	5.5	5.4	.94	.48	1.34	1.34
Stew	1.6	1.5	1.7	1.7	.30	.27	.33	.35
Pork:								
Fresh:								
Chops	6.8	5.2	7.4	9.5	1.92	1.42	2.09	2.78
Loin roast	4.2	3.3	5.0	5.2	1.05	.75	1.23	1.41
Other	2.8	2.7	3.1	2.8	.60	.54	.63	.64
Smoked ham:								
Slices	1.5	1.1	1.5	2.3	.48	.32	.52	.80
Whole or half	3.3	2.2	3.6	4.8	.85	.56	.99	1.27
Picnic	1.1	1.1	1.1	1.3	.25	.22	.26	.29
Cooked ham	1.8	1.3	1.8	2.7	.79	.56	.79	1.29
Bacon, smoked	6.2	4.7	6.7	8.8	2.04	1.42	2.25	3.11
Salt side of pork	1.4	1.7	1.1	.9	.27	.33	.22	.20
Pork sausage	3.0	2.3	3.4	4.0	.76	.54	.88	1.07
Other pork	.9	1.0	.8	.9	.17	.18	.17	.19
Other fresh meat	.1	(1)	.1	.2	.03	.01	.03	.06
Miscellaneous meats:								
Bologna, frankfurters	7.7	7.4	8.0	7.8	1.84	1.65	1.91	1.93
Cooked tongue	.2	.1	.1	.3	.06	.03	.05	.12
Liver	2.1	1.8	2.2	2.5	.51	.35	.55	.78
Other meat products	1.0	.9	.9	1.4	.27	.23	.27	.40
Total meat	103.9	83.4	112.6	136.6	26.44	19.31	28.98	38.09
Lard	9.6	10.3	9.3	8.6	1.48	1.56	1.45	1.39

1 Less than 0.05 pound.

Source: Money Disbursements of Wage Earners and Clerical Workers, 1934–36. Bull. No. 639.

An increase or decrease in meat prices, as a result of changes in supply and demand, through the process described above, is reflected promptly by competition into the price of meat animals. A chart, titled "Wholesale Meat and Livestock Prices, Production Workers' Pay Roll, and Per Capita Meat Consumption," to be referred to later in this statement, will bring out this close relationship between meat prices and the price of livestock. Of course, livestock prices also are affected by returns received for lard, hides, and other byproducts of the industry. Furthermore, the total dollars which meat packers take in from the sale of meat and byproducts obviously must cover all of the expenses of processing and distribution services, as well as paying farmers for their livestock. The table below shows the distribution of the wholesale meat dollar.

Distribution of the wholesale meat dollar

	1939	1945	1946
	Percent	*Percent*	*Percent*
Total	100.0	100.0	100.0
Livestock and other raw materials	72.3	75.1	73.7
Gross margin	27.7	24.9	26.3
Wages and salaries	14.1	12.0	12.1
Supplies, containers	3.3	4.5	4.0
Transportation	3.8	2.0	2.0
Taxes	1.1	1.6	2.2
Depreciation	1.0	.6	.5
Other charges	3.2	3.3	3.6
Net earnings	1.2	.9	1.9

The figures for 1939 are taken from a report published by the United States Department of Agriculture.[2] The figures for 1945 and 1946 are for 62 companies, constituting about three-fourths of total sales volume of all wholesale slaughterers, as collected by the American Meat Institute.

During recent years, farmers have received a larger part of the meat packers' sales dollar than in 1939. This is due to the fact that some costs have not gone up proportionately by the same amount as livestock prices have increased. Also, meat packers have handled a much larger meat volume than prewar, which means that the unit cost of depreciation and some other charges are lower.

There is no way to decide in advance just what proportion of the meat dollar farmers should receive, or whether the figure is too high or too low in any year. It is definitely to livestock producers' advantage to have livestock products used more widely, and additional processing expenses and sales effort may bring farmers a greater total dollar income from livestock, since consumers get better products. In other words, increased expenses for a better product or more service at the packing plant level actually can add to total product values, even though these expenses reduce the proportion going to farmers. Thus a moderate decline in the proportion of the individual wholesale meat dollar going back to livestock raisers may actually mean a net gain in total income to farmers.

The small amount which the meat-packing industry has been able to retain as profit may be best illustrated by a study of the United States Department of Agriculture,[2] showing that in 1939 packers' profits from all sources averaged 15 cents per hundred pounds of live weight on livestock handled. This corresponds to 16 cents and 41 cents for major packing companies for 1945 and 1946, respectively. Since these figures even include earnings from nonmeat products, it is clear that the earnings of meat packers do not appreciably affect livestock prices.

A National City Bank letter recently summarized the services of the meat-packing industry as follows:

"The record of American meat packing in mass production and distribution, maintenance of quality standards, recovery of byproducts, and low cost to the public is probably unexcelled by any industry in any society whether capitalist, socialist, or communist."

Competition among some 4,000 commercial meat-packing companies for farmers' livestock and for retail sales outlets will continue to keep livestock prices as high, and product prices as low, as is consistent with (1) the supplies of meat available, (2) the funds which consumers are able and willing to spend for meat, and (3) the expenses of performing the necessary processing and distribution services.

[2] Bjorka, Knute, Marketing Margins and Cost for Livestock and Meat, U. S. Department of Agriculture Technical Bulletin No. 932, January 1947.

II. HOW SUPPLY AND DEMAND HAS AFFECTED MEAT PRICES SINCE OPA PRICE FIXING WAS ENDED

An explanation of the factors affecting meat prices since OPA was ended can best be made by reviewing a number of charts and tables that show the various aspects of the supply and demand situation since that time. These charts and tables will show clearly that meat price fluctuations are largely the result of changes in consumer incomes, including pay rolls and number of people employed, and changes in the available supply of meat.

Retail meat prices were about double the 1939 level, according to the latest survey (May 1947) in 51 cities, by the Bureau of Labor Statistics, but average weekly earning of production workers were more than double the 1939 level, and due to the increase in number of workers employed, weekly pay rolls of production workers were over triple that in 1939. When consumers have jobs and high real income, they are especially eager and more able to buy meat.

Let us first look at the chart on the next page which shows wholesale meat and livestock prices, production workers' pay rolls, and per capita meat consumption. This chart demonstrates the close relationship between supply and demand factors as they have affected meat prices in the past years, and since OPA prices were removed.

Now, let us take a look at the trend in retail meat prices. The Bureau of Labor Statistics collects retail meat prices, along with prices of various other commodities, in 51 cities. Since it takes some time to compile the individual price data, the latest official information available is for the month of May. However, it was shown in the previous chart that the wholesale price index, as published by the Bureau of Labor Statistics, has advanced less than 5 percent since mid-May.

The table on the next page shows the United States average retail meat prices for nine principal cuts of meat for recent months, as well as the calculations of the realistic cost of meat, which were presented before several congressional committees and the Price Decontrol Board about a year ago.

While meat prices on the average have advanced since OPA controls were lifted, the increase in real cost of meat to consumers has not increased as much as a comparison of current prices and fictitious OPA ceilings would indicate. In fact, when allowance is made for black-market overcharges, as determined by independent market research agencies, and the subsidies that consumers paid indirectly in their tax bills—some meat cuts, including hamburger and chuck roast, are actually selling at, or below, the actual cost of meat to consumers under OPA.

(The table referred to is as follows:)

Retail meat prices in the United States, by cuts, under price control and by months, November 1946–May 1947

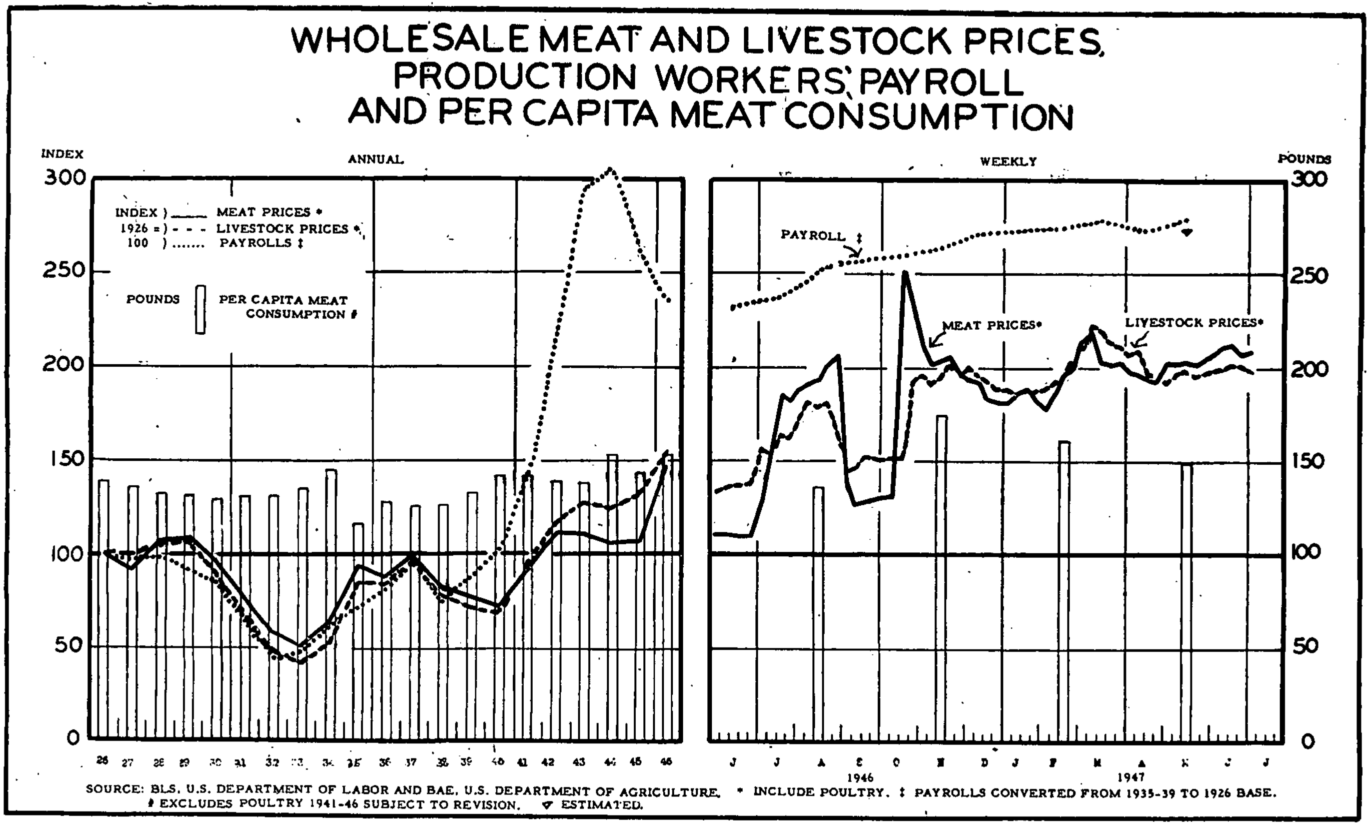
[Cents per pound]

Cuts	During price control [1]				After price control [2]						
					1946		1947				
	OPA ceiling prices (*a*)	Cost of subsidy (*b*)	Average over charge (*c*)	Total cost to consumers	November	December	January	February	March	April	May
Beef:											
Round steak	41.8	11.3	12.7	65.8	65.6	64.3	66.0	65.8	68.2	68.4	69.3
Rib roast	36.6	8.8	9.9	55.3	55.9	55.2	55.9	55.4	56.5	56.3	56.8
Chuck roast	29.4	7.9	9.1	46.4	47.1	46.3	46.6	45.1	46.4	45.6	45.9
Hamburger	29.4	8.0	6.6	44.0	43.1	41.4	41.1	40.2	40.3	40.1	40.4
Veal: Cutlets	45.2	5.1	13.2	63.5	70.3	69.7	72.7	75.2	77.8	77.3	78.5
Lamb: Leg of lamb	42.3	9.5	2.9	54.7	62.3	59.4	61.6	60.8	62.0	60.6	61.2
Pork:											
Chops	37.5	5.6	4.1	47.2	66.5	57.7	60.0	63.2	72.1	66.6	70.6
Sliced bacon	40.8	6.1	3.9	50.8	76.1	75.2	71.5	68.9	77.0	72.4	69.0
Sliced ham	51.1	7.7	14.6	73.4	84.8	83.7	83.1	83.6	92.9	90.2	89.6

[1] Calculated by the American Meat Institute, using (*a*) OPA ceiling prices for cuts comparable with those for which the Bureau of Labor Statistics collects retail prices, (*b*) additions for subsidie prorated by retail cuts paid to offset roll-back in retail meat prices and to encourage production, and (*c*) average overcharge for cuts of meat as shown by survey of meat prices in 11 cities made by independent market research agencies during February and March 1946.

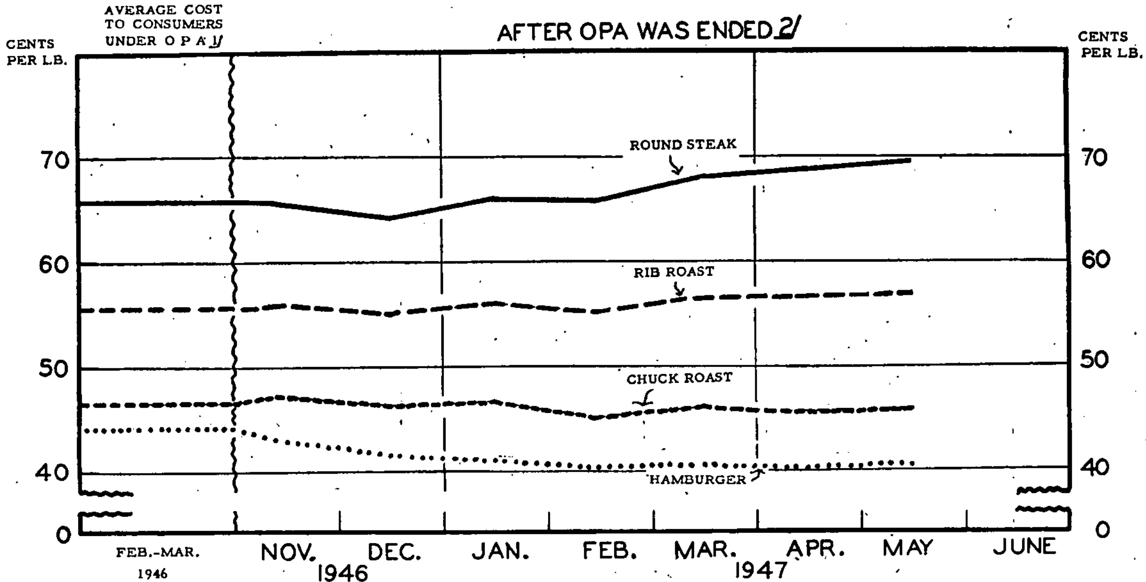
[2] United States average prices for meat collected by Bureau of Labor Statistics in 51 cities.

(The chart referred to is as follows:)



AMERICAN MEAT INSTITUTE

RETAIL PRICES FOR BEEF CUTS SINCE OPA WAS ENDED COMPARED WITH AVERAGE COST UNDER OPA



1/ CALCULATED BY THE AMERICAN MEAT INSTITUTE, USING (A) OPA CEILING PRICES FOR CUTS COMPARABLE WITH THOSE FOR WHICH THE BUREAU OF LABOR STATISTICS COLLECTS RETAIL PRICES, (B) ADDITIONS FOR SUBSIDIES PRORATED BY RETAIL CUTS PAID TO OFFSET ROLLBACK IN RETAIL MEAT PRICES AND TO ENCOURAGE PRODUCTION, AND (C) AVERAGE OVERCHARGE FOR CUTS OF MEAT AS SHOWN BY SURVEY OF MEAT PRICES IN ELEVEN CITIES MADE BY INDEPENDENT MARKET RESEARCH AGENCIES DURING FEBRUARY AND MARCH 1946. 2/ UNITED STATES AVERAGE PRICES FOR MEAT COLLECTED BY BUREAU OF LABOR STATISTICS IN 51 CITIES.

AMERICAN MEAT INSTITUTE

Another approach to evaluating the current level of meat prices is to relate them directly to weekly earnings of production workers in the manufacturing industries. The following table shows the pounds-of-meat equivalent of 1 week's earnings that could be purchased with the weekly earnings of manufacturing workers in May 1939, as compared with weekly earnings in May 1947.

This table shows that the weekly earnings of an average production worker, as reported by BLS, in May 1939, was equal in value to 100 pounds of chuck roast, 66 pounds of round steak, or 79 pounds of rib roast. This compares with weekly earnings in May 1947, which, according to the Bureau of Labor Statistics' figures, were equal in value to 106 pounds of chuck roast, 70 pounds of round steak, or 86 pounds of rib roast. In fact, 7 percent of an average industrial production worker's weekly earnings in May 1947 would have bought more meat in the case of five of the seven cuts than could have been purchased with 7 percent of the weekly wage in May 1939.

(The table referred to is as follows:)

Retail meat prices and calculated pounds-of-meat equivalent of manufacturing workers' wekly earnings

Cuts	United States average price per pound [1]		Pounds-of-meat equivalent of 1 week's earning [2]	
	May 1939	May 1947	May 1939	May 1947
Beef:	*Cents*	*Cents*	*Pounds*	*Pounds*
Round steak	36.0	69.3	66.2	[3] 70.5
Rib roast	30.1	56.8	79.2	[3] 86.0
Chuck roast	23.8	45.9	100.2	[3] 106.4
Lamb:				
Leg of lamb	30.2	61.2	78.9	[3] 79.8
Pork:				
Pork chops	30.7	70.6	77.6	[4] 69.2
Sliced bacon	32.2	69.0	74.0	[4] 70.8
Sliced ham	46.7	89.6	51.0	[3] 54.5

[1] Source: Bureau of Labor Statistics, United States Department of Labor.
[2] Calculated from average weekly earnings of workers in all manufacturing industries, published by the Bureau of Labor Statistics as follows: May 1939, $23.84; May 1947, $48.86.
[3] More.
[4] Less.

A final factor contributing to the current meat price situation is the large quantities of feed grains exported from the country during the past year. A recent report of the Cabinet Committee of World Food Problems indicated that the United States had exported 4,538,000 long tons of grains other than wheat. Since a short ton of feed grains will feed two hogs to market weight, and since each hog will contribute about 140 pounds of meat, exports of grain, other than wheat, have reduced per capita meat supplies by about 10 pounds, assuming this feed would have been fed to meat animals. Exports of wheat to the extent of 10,520,000 long tons also have contributed to keeping meat supplies smaller than they otherwise would have been.

Exports of meat, on the other hand, amounted to 224,000 long tons, or about 3½ pounds per capita. However, in recent months exports of good and commercial grades of beef have amounted to about 15 percent of these two grades of beef produced under Federal inspection, definitely affecting prices of these important retail grades of beef.

III. FACTORS AFFECTING THE OUTLOOK FOR MEAT PRICES IN THE PERIOD AHEAD

Meat prices, in the period ahead, will continue to be affected by various supply and demand factors. Obviously, these factors cannot be forecast with an absolute degree of accuracy, but it is possible for us to make some estimates of probable supplies, and to take a look at some of the factors affecting the demand for meat in the period ahead. The following tables and charts are virtually selfexplanatory. The facts shown in each of the tables and charts will be discussed orally:

(a) Per capita civilian consumption—by types of meat.
(b) Per capita civilian consumption—annual rate by quarters.
(c) Federally inspected average weekly meat production.
(d) Beef cows—Where they are—How they have increased since prewar.
(e) Map of the pig crop—with States sized to give all pigs equal space.
(f) Stock sheep—Where they are—How numbers have changed since prewar.
(g) Meat production and consumption from total United States slaughter, 1899–1947.
(h) Consumer demand for meat during the remainder of 1947 and into 1948.
(i) Meat prices versus commodity prices.

(The tables referred to are as follows:)

TABLE I.—*Per capital civilian consumption, by types of meat*

[1947 compared with 1946 and 1939–41 average]

Item	1947 [1]			Annual rate, 1946 [2]	Annual rate, 1939–41 [2]
	Annual rate	Percent change from—			
		1946	Average		
	Pounds			*Pounds*	*Pounds*
Beef	70.0	+16	+24	60.5	56.5
Veal	10.0	+1	+33	9.9	7.5
Lamb and mutton	6.0	−10	−10	6.7	6.7
Pork (excluding lard)	69.0	−9	+2	75.7	67.7
Total meat	155.0	+1	+12	152.8	138.4
Lard	14.9	+33	+6	11.2	14.1

[1] Estimates by the American Meat Institute have been developed chiefly from number on farms, pig crops, storage stocks, Government allocations and other data published by the U. S. Department of Agriculture and other Government agencies: July 14, 1947.

[2] Bureau of Agricultural Economics, U. S. Department of Agriculture.

TABLE II.—*Per capital civilian consumption, annual rate by quarters*

[1947 compared with 1946 and 1939–41 average [1]]

Item	1947			Annual rate, 1946	Annual rate, 1939–41
	Annual rate	Percent change from—			
		1946	Average		
	Pounds			*Pounds*	*Pounds*
January to March	161	−1	+18	162	137
April to June	150	+8	+12	139	134
July to September	146	+7	+8	136	135
October to December	165	−6	+11	175	149
Year	155	+1	+12	153	138

[1] Estimates by the American Meat Institute have been developed chiefly from number on farms, pig crops, storage stocks, Government allocations and other data published by the U. S. Department of Agriculture and other Government agencies: July 14, 1947.

Federally inspected average weekly meat production

[1947 estimates compared with 1946 and 1939-41 average]

Item	1947			1946—million pounds	1939-41 average—million pounds
	Million pounds	Percent change from—			
		1946	Average		
Beef:					
January-March	145.8	+23	+61	118.1	90.3
April-June	[1] 146.6	+83	+48	77.9	96.1
July-September	[1] 142.3	+35	+37	105.2	104.1
October-December	[1] 150.0	+12	+40	134.5	107.3
Total, January-December	[1] 145.2	+33	+46	109.0	99.4
Veal:					
January-March	13.5	+48	+39	9.1	9.7
April-June	[1] 14.6	+82	+33	8.0	11.0
July-September	[1] 18.5	+32	+61	14.0	11.5
October-December	[1] 16.9	−7	+40	18.2	12.1
Total, January-December	[1] 15.9	+29	+43	12.3	11.1
Lamb and mutton:					
January-March	14.1	−28	−1	19.7	14.2
April-June	[1] 13.6	−11	+5	15.2	13.0
July-September	[1] 13.5	−7	−1	14.5	13.6
October-December	[1] 14.6	−8	+2	15.9	14.3
Total, January-December	[1] 13.9	−15	+1	16.3	13.8
Pork:					
January-March	143.6	−6	+18	153.1	121.7
April-June	[1] 126.4	+7	+14	118.4	110.5
July-September	[1] 107.7	+20	+12	89.5	96.0
October-December	[1] 160.8	+7	+10	149.9	146.5
Total, January-December	[1] 134.6	+5	+13	127.7	118.7
Total meat:					
January-March	317.0	+6	+34	300.0	235.9
April-June	[1] 297.2	+35	+29	219.5	230.6
July-September	[1] 282.0	+26	+25	223.2	225.2
October-December	[1] 342.3	+7	+22	318.5	280.2
Total, January-December	[1] 309.6	+17	+27	265.3	243.0

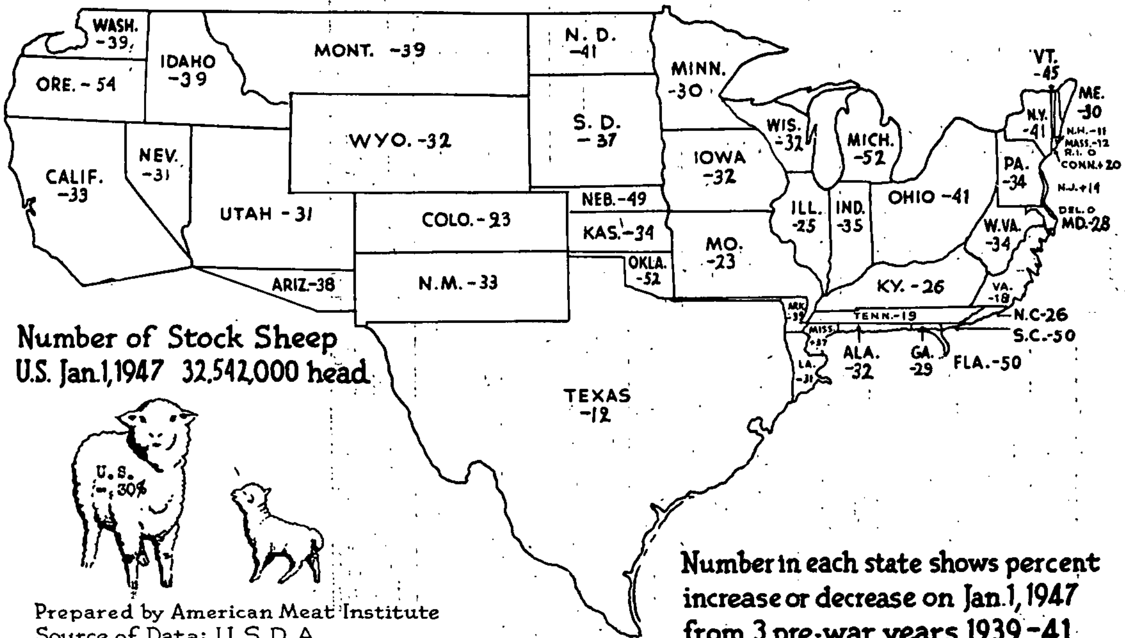
[1] Estimates by the American Meat Institute were developed chiefly from data published by the U. S. Department of Agriculture and other Government agencies.

Source: Livestock, meats, and wool market statistics and related data, 1945, and livestock, meats, and wool market reviews and statistics, 1946 and 1947 weekly reports, U. S. Department of Agriculture.

STOCK SHEEP

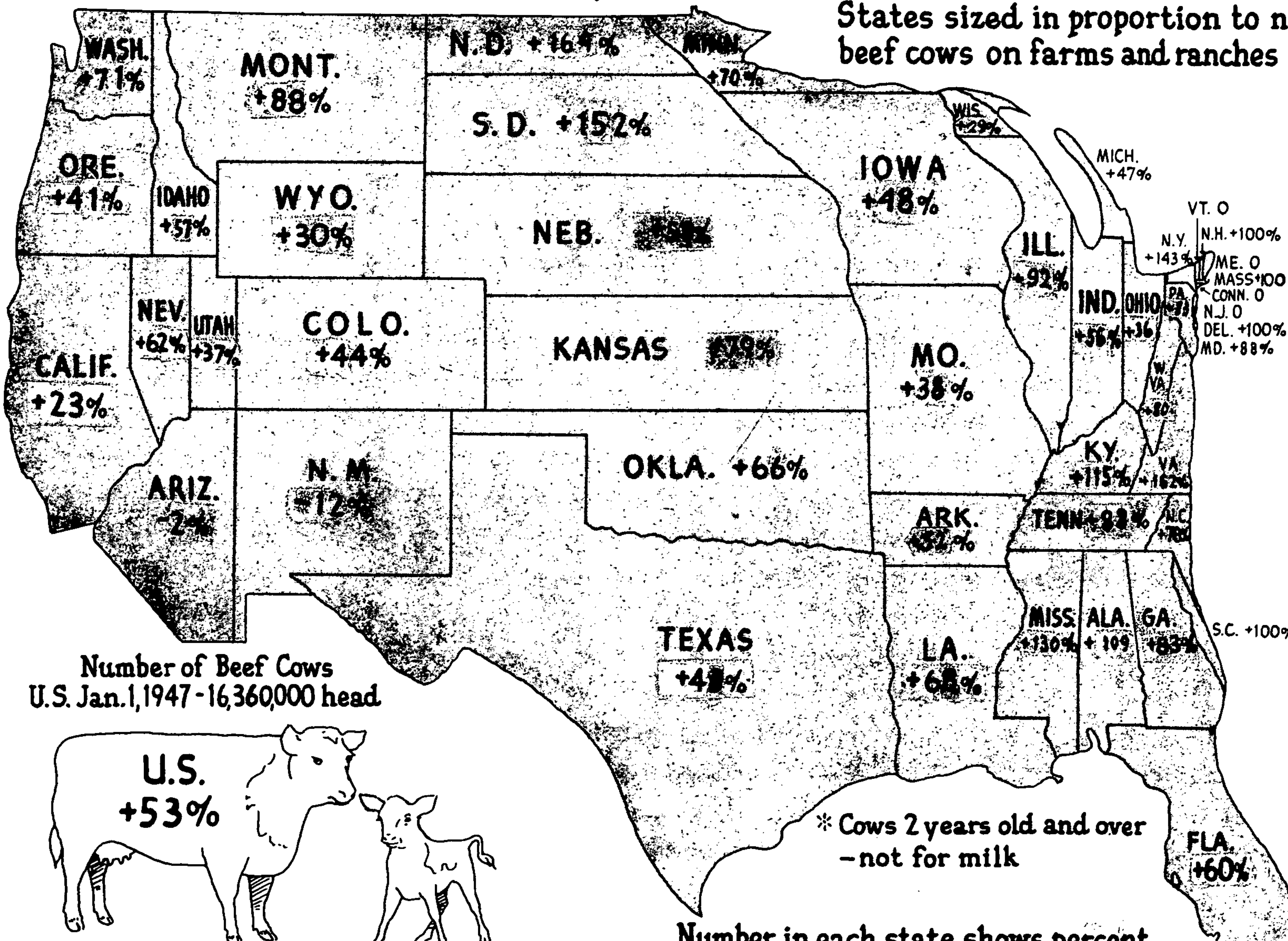
Where they are ... How numbers have changed since pre-war

States sized in proportion to number of stock sheep on farms and ranches



BEEF COWS* - *Where they are... How they have increased since pre-war*

States sized in proportion to number of beef cows on farms and ranches



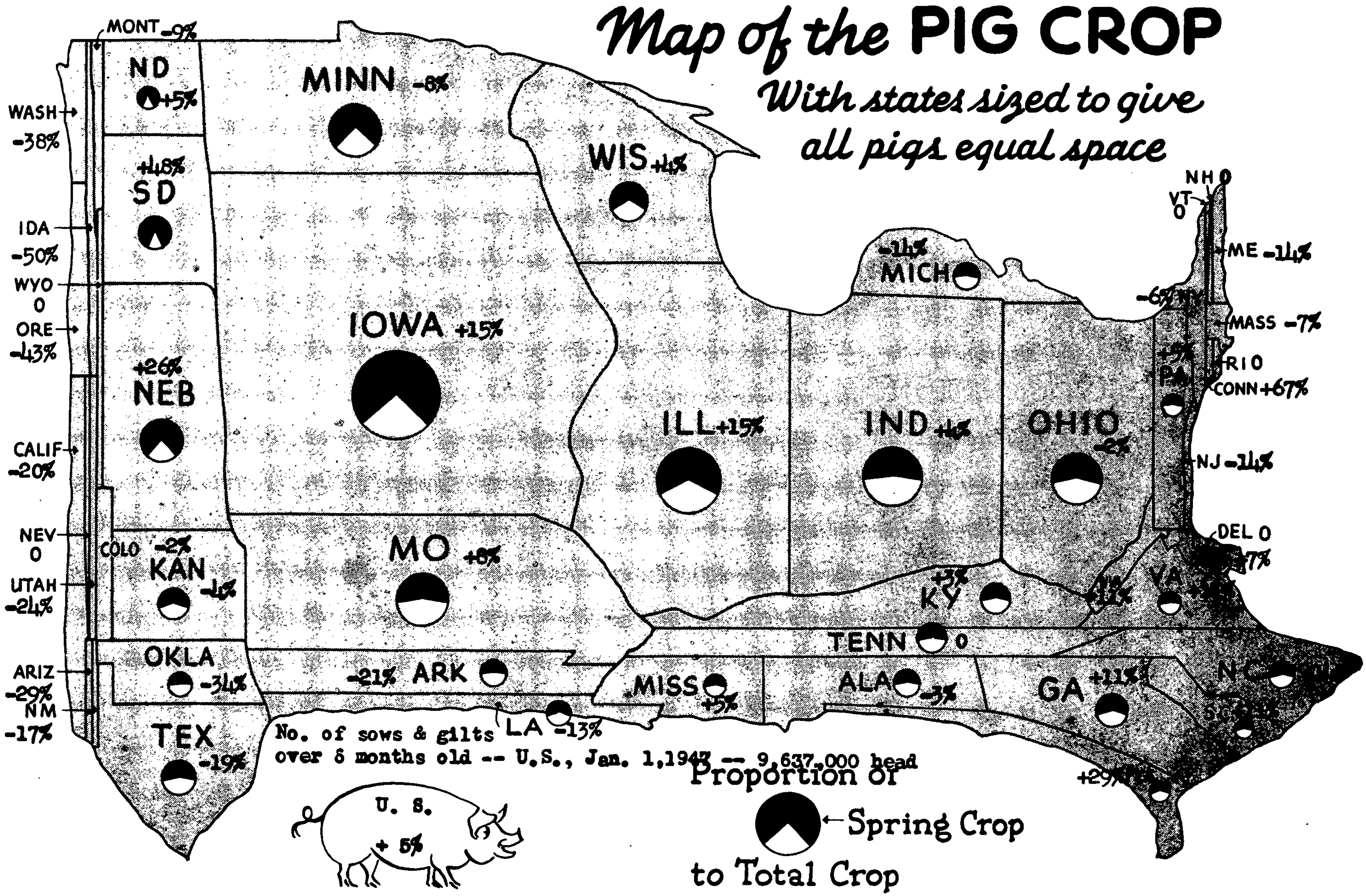
Number of Beef Cows
U.S. Jan. 1, 1947 - 16,360,000 head

* Cows 2 years old and over
-not for milk

Prepared by American Meat Institute
Source of Data: U.S.D.A.

Number in each state shows percent increase or decrease on Jan. 1, 1947 from 3 pre-war years, 1939-41.

65210 O - 47 (Face p. 552) No. 1



Number in each state shows per cent increase or decrease in number of sows and gilts over 6 months old on Jan. 1, 1947 from pre-war years 1939-41.

Prepared by American Meat Institute
Source of Data: U.S.D.A.

65210 O - 47 (Face p. 552) No. 2

Meat production and consumption from total United States slaughter, 1899–1947

Year	Beef			Veal			Lamb and mutton			Pork (excluding lard)			All meats			Lard [1]		
	Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption	
		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita
	Million pounds	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*
1899	5,522	5,029	67.2	387	387	5.2	487	487	6.5	6,310	5,370	71.8	12,706	11,273	150.7	1,679	954	12.7
1900	5,628	5,104	67.1	397	397	5.2	493	493	6.5	6,329	5,476	71.9	12,847	11,470	150.7	1,653	1,002	13.2
1901	5,814	5,266	67.9	422	422	5.4	548	548	7.1	6,357	5,493	70.8	13,141	11,729	151.2	1,650	997	12.9
1902	5,649	5,148	65.0	476	476	6.0	564	560	7.1	5,936	5,288	66.8	12,625	11,472	144.9	1,493	956	12.1
1903	6,240	5,710	70.8	492	492	6.1	563	560	7.0	6,067	5,499	68.2	13,362	12,261	152.1	1,529	952	11.8
1904	6,176	5,719	69.6	491	491	6.0	538	537	6.5	6,387	5,803	70.6	13,592	12,550	152.7	1,638	1,031	12.5
1905	6,504	5,973	71.3	556	556	6.6	530	529	6.3	6,629	5,945	70.9	14,219	13,003	155.1	1,742	991	11.8
1906	6,537	6,087	71.3	598	598	7.0	543	542	6.3	6,973	6,065	71.0	14,471	13,292	155.6	1,735	1,002	11.7
1907	6,544	6,140	70.6	626	626	7.2	553	552	6.3	7,059	6,442	74.1	14,782	13,760	158.2	1,790	1,146	13.2
1908	6,662	6,393	72.1	637	637	7.2	559	557	6.3	7,535	6,898	77.7	15,393	14,485	163.3	1,911	1,277	14.4
1909 [2]	6,915	6,713	74.2	660	660	7.3	608	606	6.7	6,557	6,064	67.0	14,740	14,043	155.2	1,628	1,127	12.5
1910	6,647	6,508	70.4	667	667	7.2	597	595	6.5	6,087	5,756	62.3	13,998	14,526	146.4	1,553	1,156	12.5
1911	6,549	6,426	68.5	666	666	7.1	693	690	7.3	6,961	6,482	69.1	14,869	14,264	152.0	1,747	1,138	12.1
1912	6,234	6,153	64.5	662	662	6.9	735	730	7.7	6,822	6,357	66.7	14,453	13,902	145.8	1,658	1,102	11.6
1913	6,182	6,157	63.3	608	608	6.3	706	701	7.2	6,979	6,501	66.9	14,475	13,967	143.7	1,653	1,073	11.0
1914	6,017	6,143	62.0	569	572	5.8	693	708	7.1	6,824	6,454	65.1	14,103	13,877	140.0	1,554	1,090	11.0
1915	6,075	5,669	56.4	590	591	5.9	605	612	6.1	7,616	6,690	66.5	14,886	13,562	134.9	1,689	1,198	11.9
1916	6,460	6,004	58.9	655	656	6.4	585	595	5.9	8,207	7,037	69.0	15,907	14,292	140.2	1,706	1,228	12.0
1917 [3]	7,239	6,687	64.7	744	745	7.2	463	463	4.5	7,055	6,093	58.9	15,501	13,988	135.3	1,451	1,091	10.6
1918	7,726	7,167	68.5	760	761	7.3	506	499	4.8	8,349	6,384	61.1	17,341	14,811	141.7	1,899	1,291	12.3
1919	6,756	6,462	61.5	819	824	7.8	590	598	5.7	8,477	6,712	63.9	16,642	14,596	138.9	1,920	1,174	11.2
1920	6,306	6,294	59.1	842	852	8.0	538	579	5.4	7,648	6,765	63.6	15,334	14,490	136.1	1,958	1,319	12.4
1921	6,022	6,025	55.5	820	825	7.6	639	661	6.1	7,697	7,029	64.8	15,178	14,540	134.0	2,108	1,217	11.2
1922	6,588	6,502	59.1	852	858	7.8	553	564	5.1	8,145	7,238	65.8	16,138	15,162	137.8	2,302	1,503	13.7
1923	6,721	6,671	59.6	916	919	8.2	588	593	5.3	9,483	8,309	74.2	17,708	16,492	147.3	2,718	1,643	14.7
1924	6,877	6,785	59.5	972	977	8.6	597	596	5.2	9,149	8,451	74.0	17,595	16,809	147.3	2,660	1,663	14.6
1925	6,878	6,888	59.4	989	993	8.6	603	605	5.2	8,128	7,734	66.8	16,598	16,220	140.0	2,153	1,453	12.5
1926	7,089	7,074	60.3	955	958	8.2	639	637	5.4	7,966	7,528	64.1	16,649	16,197	138.0	2,206	1,465	12.5
1927	6,395	6,485	54.5	867	875	7.3	629	631	5.3	8,430	8,058	67.7	16,321	16,049	134.8	2,263	1,541	12.9
1928	5,771	5,872	48.7	773	782	6.5	663	664	5.5	9,041	8,544	70.9	16,248	15,862	131.6	2,458	1,626	13.5

[1] Includes lard entering into manufactured products.
[2] Per capita consumption revised, using the Bureau of the Census' revised population estimates.
[3] Consumption figures for 1917–19, include military consumption as adequate data for separation are not available.

Meat production and consumption from total United States slaughter, 1899–1947—Continued

Year	Beef			Veal			Lamb and mutton			Pork (excluding lard)			All meats			Lard [1]		
	Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption		Production	Consumption	
		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita		Total	Per capita
	Million pounds	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*	*Million pounds*	*Million pounds*	*Pounds*
1929	5,871	6,048	49.7	761	767	6.3	682	685	5.6	8,833	8,483	69.7	16,147	15,983	131.3	2,461	1,598	13.1
1930	5,917	6,021	48.7	792	794	6.5	825	824	6.6	8,482	8,245	66.6	16,016	15,884	128.3	2,227	1,584	12.8
1931	6,009	6,026	48.3	823	823	6.6	885	886	7.1	8,739	8,477	68.0	16,456	16,212	130.0	2,307	1,706	13.7
1932	5,789	5,830	46.4	822	822	6.6	884	882	7.0	8,923	8,826	70.3	16,418	16,360	130.3	2,380	1,814	14.4
1933	6,440	6,469	51.2	891	891	7.1	852	849	6.7	9,134	8,796	69.6	17,317	17,005	134.6	2,475	1,772	14.0
1934 [4]	8,246	8,246	64.9	1,239	1,239	9.7	821	819	6.4	8,524	8,257	65.0	18,830	18,561	146.0	2,091	1,648	13.0
1935	6,605	6,788	53.0	1,022	1,022	8.0	877	876	6.8	5,919	6,155	48.1	14,423	14,841	115.9	1,276	1,226	9.6
1936	7,358	7,442	57.8	1,075	1,076	8.3	855	845	6.6	7,474	7,060	54.8	16,762	16,423	127.5	1,679	1,449	11.2
1937	6,798	7,107	54.8	1,108	1,108	8.6	852	858	6.6	6,951	7,185	55.4	15,709	16,258	125.4	1,431	1,361	10.5
1938	6,908	7,058	54.0	994	994	7.6	897	894	6.9	7,698	7,554	57.8	16,479	16,500	126.3	1,728	1,440	11.0
1939	7,011	7,159	54.4	991	992	7.5	872	868	6.6	8,660	8,474	64.3	17,534	17,493	132.8	2,037	1,671	12.7
1940 [5]	7,182	7,265	54.7	981	978	7.3	876	874	6.6	10,044	9,701	73.0	19,083	18,818	141.7	2,288	1,924	14.5
1941 [6]	8,089	8,024	60.5	1,036	1,003	7.6	924	906	6.8	9,528	8,911	67.1	19,577	18,844	141.9	2,228	1,879	14.2
1942	8,847	8,107	61.3	1,151	1,065	8.0	1,043	946	7.1	10,876	8,292	62.7	21,917	18,410	139.1	2,401	1,803	13.6
1943	8,575	6,432	49.6	1,167	1,045	8.1	1,104	823	6.3	13,640	9,647	74.4	24,486	17,947	138.4	2,865	1,840	14.2
1944	9,115	6,927	53.6	1,738	1,598	12.3	1,024	859	6.7	13,304	10,362	80.1	25,181	19,746	152.7	3,054	1,874	14.5
1945	10,279	7,637	58.9	1,661	1,528	11.8	1,054	939	7.2	10,697	8,546	65.9	23,691	18,650	143.8	2,066	1,598	12.3
1946 [7]	9,378	8,408	60.5	1,440	1,376	9.9	970	928	6.7	11,173	10,522	75.7	22,961	21,234	152.8	2,138	1,666	12.0
1947 [8]	10,600	9,900	70.0	1,450	1,430	10.0	825	800	6.0	10,375	9,750	69.0	23,250	21,880	155.0	2,400	2,045	14.5

[4] Includes slaughter under the emergency Government relief purchase program in 1934–35.

[5] 1940 and 1941 pork and all meat consumption figures were adjusted same amount as production was revised for these years. Revisions will be made when revised figures are published by the U. S. Department of Agriculture.

[6] Consumption figures for 1941–45, represent civilian consumption only, obtained by subtracting the lend-lease and other exports and military takings, from the total supply. The per capita civilian consumption was obtained by dividing the total apparent civilian consumption by the total population, adjusted for under enumeration of children under 5, less 85 percent of the military forces.

[7] Consumption and per capita figures are preliminary.

[8] Estimated by the American Meat Institute.

Source: Bureau of Agricultural Economics.

CONSUMER DEMAND FOR MEAT

The following are some of the principal strengthening factors which are expected to affect the demand for meat through the remainder of 1947 and into 1948:

1. Employment continues at record levels—60,000,000 employed in June 1947, compared with the 46,000,000 employed in 1939—an increase of 14,000,000.

2. Weekly earnings now have more than doubled since prewar, and are also at record levels. In all manufacturing industries, weekly earnings of workers in May 1947 of $48.86 compare with an average of $23.86 in 1939. Current wage increases probably will push average weekly earnings over the $50 mark. Real earnings, after making allowances for the increase in the cost of living, have declined some from the 1945 peak, but are still up about one-third over prewar, giving the average consumers considerably more money to spend for items that are available.

3. Foreign demand for industrial goods and foods—stimulated by loans of several billion dollars, and prospects for future loans—has aided in supporting employment and consumer income. Exports of all goods in May amounted to nearly $1,500,000,000—equalling an all-time peak. It is difficult to see how this volume of exports could continue for many months without the development of a serious shortage of foreign exchange. Therefore, unless offset by substantial increases in loans—that will take congressional approval—this factor will contribute toward modifying the demand, at least by 1948.

Foreign demand for meat and lard will not be large if limited by Government allocations, as indicated by the fact that during the first 6 months of 1947 exports have taken about 3 percent of total production. However, this amounted to about 15 percent of good and commercial grade beef produced under Federal inspection.

4. Farm income of over $24,000,000,000 in 1946, and up nearly one-third (in the first half of 1947) over a year ago, will furnish purchasing power for a good supply of both durable and nondurable commodities throughout the remainder of 1947 and into 1948.

5. Liquid savings backlog will help to maintain strong demand for durable goods. Bank deposits, plus currency outside of banks, currently amount to about $165,000,000,000, compared with $60,000,000,000 prewar, and thare are over $30,000,000,000 worth of series E United States savings bonds outstanding.

6. Credit expansion, while at an all-time peak in terms of dollars, still is increasing at a rapid rate—aiding in supporting the demand for durable goods.

Factors which are expected to modify somewhat the effects of the strong demand factors listed above are:

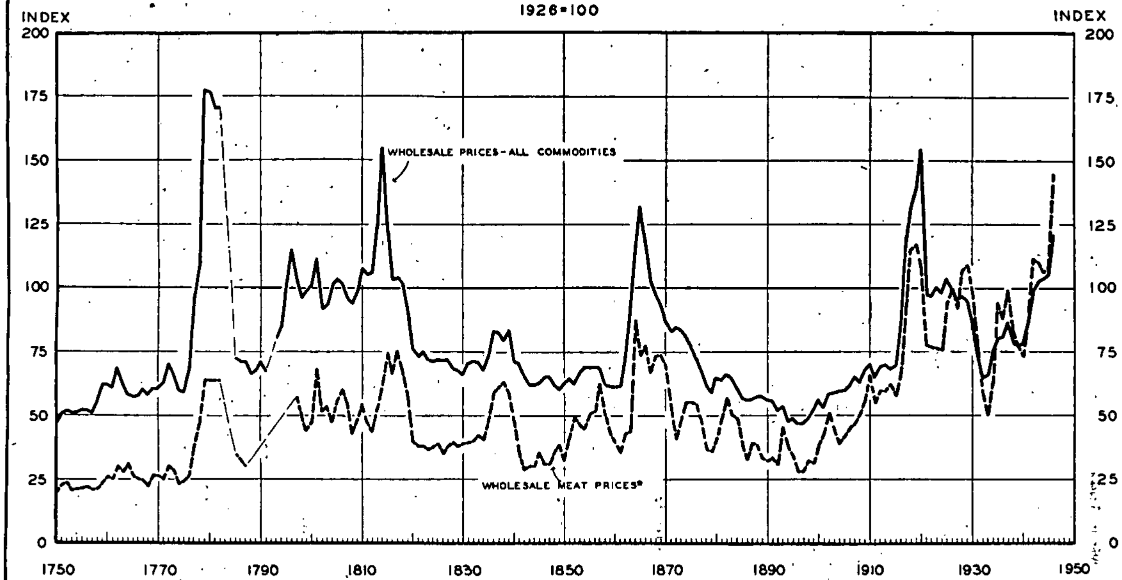
1. Increased availability of durable goods, including household appliances, automobiles, etc., will absorb a larger part of consumer buying power, leaving less for meat and related items. This factor will become of growing importance throughout the remainder of 1947 and 1948. Increased rents will also affect consumer buying power.

2. Increasing inventories of some goods may result in temporary unemployment and reduced incomes of persons engaged in these industries. Many of our major industries, however, such as iron and steel, automobiles, machinery, and paper still are not able to meet current demand.

3. Record peacetime physical output of goods will tend to lower prices, especially in some lines. The index of physical industrial production during the first 5 months of 1947 was nearly 90 percent over prewar. This increase in physical output, even after allowing for the effect of exports, soon should result in such an increase in supplies of consumer goods that lower prices will follow, keeping in mind that real consumer incomes are up, on the average, about one-third over prewar.

MEAT PRICES VS. ALL COMMODITY PRICES

WHOLESALE-1750 – 1946



* THE 1750-1912 WHOLESALE MEAT INDEX BASED ON PRICES OF MESS BEEF AND MESS PORK AT NEW YORK, WITH EQUAL WEIGHT.
SOURCES: "WHOLESALE COMMODITY PRICES IN U.S. 1700-1861" A.H. COLE. "WHOLESALE PRICES" B.L.S.

AMERICAN MEAT INSTITUTE.

SUMMARY

1. Meat price fluctuations are largely the result of changes in real consumer incomes, including pay rolls and number of people employed, and changes in the available supply of meat for consumption and for export. Retail meat prices were about double the 1939 level, according to the latest survey (May 1947) in 51 cities, by the Bureau of Labor Statistics, but average weekly earnings of production workers were more than double the 1939 level and, due to the increase in number of workers employed, weekly pay rolls of production workers were over triple that in 1939. When consumers have jobs and high real income they are especially eager and more able to buy meat.

2. These supply-and-demand factors are reflected promptly in meat prices and, in turn, in livestock prices, since there is keen competition among some 4,000 commercial slaughterers to buy livestock, over whose volume the meat-packing industry has no control, and to sell meat, most of which is highly perishable. Farmers' costs also have increased sharply.

3. The weekly earnings of an average production worker, as reported by BLS, in May 1939, was equal in value to 100 pounds of chuck roast, 66 pounds of round steak, or 79 pounds of rib roast. This compares with weekly earnings in May 1947, which, according to the Bureau of Labor Statistics' figures, were equal in value to 106 pounds of chuck roast, 70 pounds of round steak, or 86 pounds of rib roast. In other words, production workers could buy more of these items with their current weekly incomes than they could buy with their weekly incomes in 1939.

4. While meat prices have advanced since OPA controls were lifted, the increase in real cost of meat to consumers has not increased as much as a comparison of current prices and fictitious OPA ceilings would indicate. In fact, when allowance is made for black-market overcharges, as determined by independent market research agencies, and the subsidies that consumers paid indirectly in their tax bill, some meat cuts, such as chuck roast and hamburger, according to the latest Bureau of Labor Statistics price data (May 1947), are actually selling at, or below, the actual cost of meat to consumers under OPA.

5. Meat prices have advanced since January 1947 as a result of:

(*a*) A seasonal decrease of 10 to 15 percent in per capita supplies of meat;

(*b*) A further increase in weekly earnings of production workers, of about 4 percent, to an all-time high; and

(*c*) A record all-time peak of 60,000,000 employed—up about 4 percent from January 1947.

The decrease in seasonal per capita meat supplies results largely from a normal seasonal drop in livestock supplies, which lowers meat production, and from the fact that current storage stocks of meat are smaller than the prewar average. For example, meat production under Federal inspection last week (week ending July 12) was 295,000,000 pounds. This compares with the production during the peak week of the year (week ending January 18) of 421,000,000 pounds. Meat production last week, therefore, was nearly one-third below the peak for the year.

6. Per capita meat consumption for 1947 is expected to be about 155 pounds, the largest since 1909. However, during the Government's fiscal year, ending June 1947, exports of grain, other than wheat, have reduced per capita meat supplies by about 10 pounds, over what they otherwise could have been, had an equivalent amount of feed been fed to meat animals. Exports of meat, on the other hand, have amounted to only about 3½ pounds per capita—although in recent months exports of good and commercial grade beef have amounted to about 15 percent of these grades of beef produced under Federal inspection.

7. Net earnings in the meat-packing industry make no appreciable difference in the price consumer pays for meat. For example, last year earnings averaged about 2 cents on each dollar's worth of product sold—or less than a fraction of a cent a pound.

8. A seasonal increase in livestock marketings by fall and winter is expected to increase available supplies of meat by about 15 percent, which, unless offset by further wage increases and other demand factors, is expected to lower prices moderately from the levels prevailing this summer.

9. The present unfavorable outlook for feed grains, as compared with a year ago, and prospects for large grain exports, are expected to prevent the increase

in meat production that seemed probable in 1948, and may actually result in some decrease, depending upon the effect of weather conditions on the corn crop throughout the remainder of the growing and maturing season.

10. The long-range outlook for meat supplies appears more favorable than the short-range outlook analyzed in this report. Hybrid corn and wider use of improved varieties of seeds for other feed grains, hay and pasture, further improvement in machinery and equipment, and further reduction in horse and mule numbers, is expected to increase even more the future supply of feed for meat animals. Then, too, it appears probable that livestock production techniques will undergo rapid improvements in the near future, and that the public has become more conscious of the value of meat in the diet. All in all, this should mean more meat for consumers in the years ahead.

STATEMENT OF W. RANDOLPH BURGESS, VICE CHAIRMAN, NATIONAL CITY BANK, NEW YORK, N. Y.

Mr. BURGESS. Mr. Chairman, in his economic report to the Congress on January 8, the President included as one of the means of achieving economic stabilization a "wise management of the public debt."

Since I am chairman of the committee on public debt policy, it seems appropriate that I might at this time summarize the conclusions that we have reached up to this point.

The CHAIRMAN. What is that committee, Mr. Burgess?

Mr. BURGESS. It is a committee organized a year and a half ago under a grant by the Falk Foundation, consisting of a group representing different interests.

I will read the list of the committee.

The CHAIRMAN. You might put the list of the committee in the record, together with the advisers to the committee.

Mr. BURGESS. Yes.

(The list is as follows:)

Chairman: W. Randolph Burgess, vice chairman, National City Bank of New York.

Vice chairman: John S. Sinclair, executive vice president, New York Life Insurance Co.

Daniel W. Bell, president, American Security & Trust Co.

E. E. Brown, president, First National Bank of Chicago.

Marion B. Folsom, treasurer, Eastman Kodak Co.

Wesley C. Mitchell, professor emeritus of economics, Columbia University.

Benjamin U. Ratchford, professor of economics, Duke University.

Earl B. Schwulst, executive vice president, Bowery Savings Bank.

George Willard Smith, president, New England Mutual Life Insurance Co.

Levi P. Smith, president, the Burlington Savings Bank.

H. B. Wells, president, Indiana University, secretary to the committee.

Donald B. Woodward, second vice president, the Mutual Life Insurance Co. of New York.

Advisers to the committee;

Charles C. Abbott, professor of business economics, Harvard School of Business Administration.

Sherwin C. Badger, second vice president and financial secretary, New England Mutual Life Insurance Co.

B. H. Beckhart, professor of banking, Columbia University, and director of research, the Chase National Bank.

Stephen M. Foster, economic adviser, New York Life Insurance Co.

John W. Love, business editor, the Cleveland Press.

Marcus Nadler, professor of finance, New York University.

Roy L. Reirerson, assistant vice president, Bankers Trust Co.

J. H. Riddle, vice president, Bankers Trust Co.

George B. Roberts, vice president, National City Bank of New York.

Murray Shields, vice president, Bank of the Manhattan Co.

Arthur P. L. Turner, Jr., economist, Bankers Life Co., Des Moines, Iowa.

Director of research: James J. O'Leary, associate professor of economics, Duke University.

Mr. BURGESS. Mr. Folsom, who speaks after me, is a member. Mr. Lew Douglas was a member before he became Ambassador to the Court of St. James. Mr. Lee Wiggins before he became Undersecretary of the Treasury, and Mr. Robert Garner before his appointment as Executive Vice President of the International Bank.

The CHAIRMAN. You are staffing the Government.

Mr. BURGESS. Staffing the Government, yes.

This will summarize in very brief form what seems to me the conclusions arrived at.

I might say that the fourth of our studies is being released this afternoon and copies are before you. I think most of you are familiar with our trade-mark, which is a chart of the national debt from the beginning. There have been three studies published heretofore.

There is little or no danger the Government will default on its obligations, for the Government itself prints money with which all debts, including its own, are paid.

Senator WATKINS. Do you mean that actually?

Mr. BURGESS. Either in terms of currency or credit. It is equivalent to money and attains the economic results of printing more money, but it is much more moral.

Senator WATKINS. You simply pay off one debt by borrowing more money?

Mr. BURGESS. Well, by acquiring another debt of a different kind. So, the rules for government are different than those for individuals.

Senator MYERS. Do you subscribe to the theory that it does not matter because the Government owes the money to itself anyway?

Mr. BURGESS. I do not. It is more difficult for a country to pay a foreign debt than a debt it owes to its own citizens, but, nevertheless, it involves collecting taxes. I will come to that in a moment.

Let me repeat the principal danger of so huge a public debt does not lie, as some people have felt, in national bankruptcy or some sudden catastrophe such as might face an individual or a business with an overpowering debt. There is little or no danger that the Government will default on its obligations, for the Government itself prints the money with which all debts, including its own, are paid.

The dangers rather lie first in the dilution of our dollar. We now have a great many more dollars than we had a few years ago, but they don't buy as much. These dollars are a powerful inflationary force which threatens at any time to break out in price rises and economic disorder. Already the cost of living has risen over 50 percent and after a pause the pressure is again on for further increases. These are wicked forces which undermine some of the most precious of our human and economic possessions. They undermine thrift; they undermine the well-being of the middle classes, which is the greatest strength of any civilization.

The second danger is that the management of the huge debt will dictate such controls and such regulation of our life that it will strangle the growth of our country and rob us of some of the human freedoms which we treasure. This would be the consequence of long continued, excessive taxation, or of the freezing of interest rates at an artificially low level so that they could not perform their normal economic function. This in turn would encourage the use of more direct Government controls over the country's economic life, such as are today hamstringing the countries of Europe.

I may say I am just back from a trip abroad, and one thing which impresses you enormously is the way life over there is tied down by regulations and restrictions. The British are suffering from an inadequacy of manpower and other countries are, and yet you see many hours wasted by queuing up, which is the result of regulation.

Based on the studies of our committee, I suggest the following points in a program for a wise management of our public debt.

1. Control the budget: The first step in dealing with the debt is to get the national budget under control. The President found it necessary to lay before the Congress in January a 37½-billion budget. This budget is four times as much as in the biggest peacetime spending years before the war. The budget would provide for the Government's controlling and spending between 20 and 25 percent of all the money the people of the United States earn, that is, the total national income. Even this huge budget made no substantial provision for reducing the national debt.

If you add State expenditures that would come up to something like 30 or 35 percent.

The country is now in the midst of a business boom, with a national income twice as high as before the war. This boom is supported by a huge accumulation of funds as a result of war financing, coupled with a large deferred demand for goods. This combination creates the boom. We cannot expect the boom to continue indefinitely. Therefore, a budget barely balanced, at a tax level which places a serious burden on all the people and on business, is a budget out of control. The country's first task in any program of debt management is to reduce Government spending. I may say that is the unanimous conclusion of our committee. We follow the practice in the committee, not of employing an economist to write the report for us and then publish it. We have the draft prepared and do not publish anything we are not all agreed on.

Senator MYERS. May I interrupt you there, Mr. Burgess?

Mr. BURGESS. Yes, sir.

Senator MYERS. I think we are all probably in accord, and I think everyone in America is in accord with that general principle, but do you have any recommendation how we may further reduce the cost of Government? You say the budget is four times as much as in the biggest peacetime spending years before the war. Do you realize that today the interest on the debt is $5,000,000,000, which was more than the entire budget in prewar years?

Mr. BURGESS. Yes.

Senator MYERS. So that statement "the country's first task in any program of debt management is to reduce Government spending" is too general. I think most of us are in accord with that, but do you have any suggestion as to how to reduce it other than is being done in the present Congress?

Mr. BURGESS. That is a very tough problem.

Senator MYERS. Of course it is.

Mr. BURGESS. I have followed the steps taken, first by the administration itself. Before they presented the budget they did a great deal of paring, which was done very vigorously. I have followed the efforts of the congressional committees to reduce the budget. It is about the toughest thing Congress ever tried to do, particularly at a time when so much of the budget is a fixed obligation. You cannot reduce interest on the Government debt and you have to meet certain obligations to the veterans. You have to maintain a strong Army and Navy.

I am convinced, however, that a great deal of saving is possible. It would be a miracle if it could not be done after so great an expansion. I do not believe it can be done fully without reconsideration of policies. You cannot do it all in administration. Some can be done in administration. The Government machinery is readjusting rapidly to peace. We all know in business that as you make such a readjustment you can always operate more effectively over a period.

Some of it goes back to policy and to the question of subsidies. You take the very large item of financing expenditures for veterans, which we all want to use as a method of fulfilling our obligation; I had two boys in the service, and I am a veteran of World War I, and if I want treatment at a veterans' hospital, and ask for treatment, I can get it if I am willing to certify I cannot afford to pay for it. Therefore, two-thirds of the beds are filled with veterans who did not have war-incurred disabilities. It is a form of socialized medicine. That is the present policy. President Roosevelt got it changed for a few months, but it reverted again. We are going to have to look for ways to reduce the public debt.

The CHAIRMAN. We hope we will not spend nearly $11,000,000,000 for the armed services as a permanent matter. You cannot set your peacetime Army and Navy today as we hope to have it. We hope we will not spend the $10,000,000,000 or $11,000,000,000 permanently.

Looking at this long-range veterans' program, which includes educational benefits, international affairs, and financing——

Mr. BURGESS. I may say this study covers those different points.

Senator MYERS. What page is that?

Mr. BURGESS. Pages 4 and 5.

The CHAIRMAN. So I think it perfectly reasonable to think over a period of 3 or 4 years the budget will be substantially less.

Senator MYERS. Yes; but I think the people are misled when we compare this year with 1939, because of the interest on the debt and the expenditures for national defense, and so forth. Such a comparison unless explained is unfair and misleading.

I did not mean to interrupt you.

Mr. BURGESS. The second point in the program is to reduce the debt. We must begin at once to reduce the debt and so lessen the dangers I have suggested. There is another reason why we cannot risk continuing the debt at this high level. We can never tell when another national emergency may arise, and we don't want to be caught then with so large a debt.

The amount of debt retirement should be related to the prosperity of the country, and in a good year we can and ought to retire more debt than in a year of reduced income. The present period of boom prosperity is one in which we ought to make a good beginning at debt retirement.

3. Distribute the debt: The national debt is most dangerous when it is held by the banks, for in that form it adds to the money supply, and the money supply is the inflationary factor. You have already had that demonstrated in the case of meat. If money exceeds goods it tends to force prices up. So in addition to making every effort to reduce the total amount of the debt, it is sound fiscal policy, es-

pecially in times of prosperity, to distribute as much as possible of the debt into the hands of investors other than banks who will hold the debt securely out of the current stream of spending.

It was for this reason that the Treasury adopted the policy of selling savings bonds to as many people as possible. A wide distribution of Government bonds in the hands of millions of people is also a safeguard to the welfare of the Nation, for these bonds provide a cushion for use by these people in lean years, against depression or unemployment. The continued vigorous sale of savings bonds is sound policy.

Senator MYERS. May I interrupt you there for a moment?

I raised this question for another purpose in another of our hearings. I believe that in April and May there were more of these small E bonds cashed than were purchased.

I surmise from your statement you believe the contrary to be true. That was something that disturbed me considerably. I thought that probably because of high prices people were now compelled to dip into their savings to purchase the articles they needed. It also indicates that instead of distributing the debt the opposite it occurring.

Mr. BURGESS. For that particular month. If you take the year as a whole it is very encouraging. As we get away from the war drives the weakly held bonds have been cashed and now they are held more firmly. The redemeptions were running about 1 percent of the amount outstanding per month, which is not bad when you consider the amount outstanding.

The CHAIRMAN. Are the amount of sales and redemption about equal?

Mr. BURGESS. No.

The CHAIRMAN. In January and February the sales were greater?

Mr. BURGESS. Yes, sir.

The CHAIRMAN. And later on they were less?

Mr. BURGESS. Yes.

The CHAIRMAN. I wonder for the whole year what it will show.

Mr. BURGESS. The whole year of 1947, to date, the sales of savings bonds are a billion and a half above redemption. I am giving the figures from memory.

The CHAIRMAN. They are ahead?

Mr. BURGESS. That includes the F and G bonds. For the E's it ran ahead, but not as much, several hundred million ahead, but the record has been much better than many people expected. I was very much concerned.

Senator WATKINS. Do you not think the sales were encouraged by the psychology created in the war drives "Just hold it and spend it after the war"?

Mr. BURGESS. We turned the heat on in the bond drives. It was the way to avoid inflation spirals, and we got people to buy just all they could take. Whenever you do that you are bound to oversell some people.

Senator WATKINS. I was referring more to the sales. Do you not think they were influenced by the propaganda we put out, namely, "Buy bonds now and you will have it to buy refrigerators and cars later"?

Mr. BURGESS. Yes. We tried in the wartime campaigns to temper down that appeal.

Senator WATKINS. As I recall, it was in the public press, and there were big advertisements spread through the papers.

Mr. BURGESS. There were some advertisements. We censored a lot of them. I was chairman of the finance committee for New York State for two drives. We tried to keep that appeal from being used.

Senator MYERS. Your point is we should still encourage the sale of bonds?

Mr. BURGESS. Yes, sir.

In addition to the sale of savings bonds it is desirable for the Treasury to be constantly alert to the markets for Treasury long-term bonds. As fast as insurance companies, savings banks, trust accounts, and individuals have money which they are willing to put into long-term Government bonds, it is sound public policy for the Treasury to issue and sell quantities of these bonds adapted to the market.

4. Reduce wartime taxes: At the end of each great war the national debt has seemed to the people of the day almost unbearable. In some countries and at some times the fear was justified, and the value of the currency collapsed. The United States has in the past borne its debts well, and the main reason is clear; the force of enterprise has been so powerful and the growth of production and income so rapid that they provided the means to pay debt charges.

Today's debts are heavier absolutely and relatively, and we must summon to their payment our full resources of energy and ingenuity. But we cannot do this if energy and ingenuity are held in leash by Government tax policies. This country has an enormous potential. Our heritage and tradition of private enterprise has developed powers of productivity never known before. But our problem is to release and stimulate these resources, for that is our one best hope to satisfy this debt without serious damage.

Also production provides the goods people can buy with their expanded money supply and helps restore the balance of money and goods.

The greatest handicap to productivity in the United States is probably taxes. Progress depends on the full blossoming of the energies of millions of business leaders, on their extra exertion, their extra concentration. The present tax system penalizes extra effort—lessens the incentive for going the extra mile. As a wartime measure high tax rates could not be avoided; in time of peace and facing our present tasks they ought to be reduced promptly.

There may seem to be a certain contradiction in a program of reducing taxes at a time when debt reduction is so demanding, but we can do both if we control spending. Above all it must be remembered that the objective is dynamics. If the reductions renew incentive, and restimulate enterprise, they will pay or more than pay for themselves. It was so in the twenties after World War I. Reductions of tax rates were followed by increasing tax yields.

5. Unfreeze interest rates: Interest rates have two great economic functions which they cannot fulfill without some flexibility of movement.

One of these functions is the adjustment of the supply of savings to the amount required for a dynamic economy. At the moment there appears to be a glut of money fed from the wartime stream of bank credit. But in the long run a fair price for money—that is, a reasonably high interest rate—is one of the ways to ensure a flow of needed savings.

The second and more immediate function of the interest rate is as one of the controllers of the flow of credit. In the old days booms were checked when money ran out, and the signal was a rise in money rates.

Today this whole mechanism is dominated by the central bank and the treasury in each country. But even central banks and treasuries can't have their cake and eat it too; they can't exercise controls over excessive credit expansion and at the same time keep money dirt cheap for government borrowing.

If we are to avoid the great swings of the business cycle that do so much damage we must stop freezing interest rates. We can't afford to throw overboard the response money rates naturally make to overextension of credit.

I may say the recent moves that the Treasury and Reserve system has made to unfreeze bill rates are a very helpful move. I believe it makes it easier for the Treasury and Reserve System to exercise more control over credit expansion.

The CHAIRMAN. Do you see any probability or necessity for changing the $2\frac{1}{2}$-percent rate on long-term bonds?

Mr. BURGESS. No; not under present conditions.

The CHAIRMAN. That is adequate?

Mr. BURGESS. I think so.

The CHAIRMAN. As far as you can see?

Mr. BURGESS. The volume of savings is affected by the amount of money, the credit expansion I referred to earlier. For the moment there seems to be an adequate amount of savings for the job to be done. But at this price level everyone needs a lot more money than they ever did. Whether the $2\frac{1}{2}$-percent rate over a period of years will be a high enough rate to draw the savings that you need, we just do not know yet.

These then are the essential things we must do as a nation if we wish to stay in control of our national debt; we must control spending and start paying off the debt; we must distribute the debt just as widely as possible into the hands of investors and so reduce the inflationary money supply that goes with a floating debt. We must take every possible step to preserve and to increase the dynamic energy of our economic life; for that will make the burden of the debt easier to bear and will maintain our American heritage of freedom. This will mean reducing taxes and unfreezing interest rates. If we do these things we can grow up to and handle successfully even the present large debt.

The CHAIRMAN. We have had an increase in prices and wages which put it way in excess of 50 percent, and perhaps a more balanced increase than we had after World War I. If that is a permanent increase it automatically cuts the burden on the debt about a third?

Mr. BURGESS. That is right.

The CHAIRMAN. Would your idea be that we should maintain the price and wage level at something substantially, if you can, so far as we have the power, substantially above the prewar level as a permanent new level?

Mr. BURGESS. That is a tough question to answer. I would incline to think so. You have considerations on both sides of the question. The high price level does make it a great deal easier to carry the debt. There is no doubt about that.

I think on the whole a high price level in this country makes it a little easier for the other countries to get along. We have all had inflation. To attempt to back up involves serious difficulty. It is very nice when you go up, but not so good when you go down. A price deflation is a difficult thing to do.

The CHAIRMAN. A wage deflation is almost impossible.

Mr. BURGESS. A wage deflation is almost impossible. The economic board of this country shows there almost has never been a real deflation of wages. There were some dips in it. If you take the wage index running back for 100 years, when it goes up, it does not come down. A little dip now and then. So after the Civil War and so after World War I. You could deflate agricultural prices, yes, and they are probably too high now. The general price level you cannot.

I think we have to recognize however that there are some very cruel penalties in maintaining present price levels. There are people living on annuities, white-collar people, whose wages go up more slowly.

The CHAIRMAN. There has been a more general increase in those groups of wage earners too?

Mr. BURGESS. Yes, sir.

Senator MYERS. If we can reduce the price level you think we should, do you not?

Mr. BURGESS. No; the general price level, I am not for that.

Senator MYERS. Many witnesses have appeared before us from industry and have said increased production will reduce prices.

Mr. BURGESS. Yes; it will in a specific line. The long history of this country is reduction in prices of manufactured goods and gradual increase in prices of raw materials.

Senator MYERS. Many witnesses indicated increased productivity and efficiency in their plants would certainly bring prices down.

The CHAIRMAN. I think the present level has gotten up to 170. I had in mind 150 to stabilize. Some reduction in prices is, it seems, certain.

Mr. BURGESS. There are some prices way out of line. I think what you say about meat would indicate you could produce meat at lower prices than the present level. You can certainly produce cotton and wheat at lower levels.

On the other things there are certain elements in the present price level which are almost bound to come up.

There are certain wages, and one does not have to go too far from Washington to find wages that have not adjusted to the increase. Some rents are not adjusted to higher costs.

So, if you take an average of retail prices, wholesale prices and the different costs of commodities and wages, I am not sure you can depress it much below the present level without difficulty.

Senator MYERS. There was one witness here and I think his statement has been reiterated and repeated time and again. He told this committee he thought any price was too high that could be reduced.

Mr. Burgess. Yes; of course, all prices, the whole general price level could be reduced, if the country adopted a policy of reduction. It is a matter of cost. If you follow a national policy of deflation and set out to reduce wages 25 percent, I have no doubt economically it is a thing that is not completely impossible.

Senator Myers. I did not interpret his statement that way, although I did not at the moment inquire into that statement.

Mr. Burgess. All of us ought to be working definitely to try to decrease prices to the consumer to the fullest possible extent commensurate with fair profits, wages, and so on.

Senator Flanders. Mr. Chairman, I would like to ask Mr. Burgess a question.

The Chairman. Very well.

Senator Flanders. This is outside of your testimony which I read very hastily earlier.

I wanted to follow up some suggestion made yesterday to the committee by Leon Henderson and the group of men with him, and get your opinion as to their fears of a recession based on the expectation that the completion of the building up of normal inventories would take a certain quantity of production out of the market, and that the present rate of business spending of which inventories are a part cannot be maintained at 20 percent or thereabouts. That is abnormal and also on the prognosis of a considerable part of our exports of commodities as a permanent part of the economic picture, and taking all those thing together, Mr. Henderson is convinced that it is going to result, he did not say in a depression—in fact he said it was not a depression, but in a recession within a few months.

Can you offer any judgment on that.

Mr. Burgess. Well, Senator, it seems to me the three points you have mentioned are all perfectly sound points. They are all readjustments that sooner or later we will have to face. I suspected, I confess, that we would have gone somewhat faster on some of those readjustments than we have gone. Events have intervened to postpone that. One of the events is the floods in the West that has reduced the corn crop.

Another event is a bad crop after a very cold winter in Europe.

Another event is some changes in wages.

All of these things have kept up what you might call the inflationary pressures on the situation longer than appeared likely at the beginning of the year.

I think you still have to go through those adjustments. One of them, curiously enough, we seem to have gone through partly and rather painlessly. In the consumer goods industry many pipe lines are filling, and as they have been filled orders have come in again.

If we should go through the other adjustments for one reason or another so easily we might pass through this recession without knowing it.

My guess is the other adjustments are sufficiently painful. They may produce some slackening in the business starting at X time. The Germans had a word for it "conjucture." Whether these things will happen together we do not know. If they happen separately they will have less effect.

Senator Flanders. I believe you said increases in wage rates had slowed up the readjustment and Mr. Henderson's remedy was to increase them further.

Mr. BURGESS. I think the sooner we make the adjustments in the——

Senator FLANDERS (interposing). You do not have any comment on Mr. Henderson's remedy?

Mr. BURGESS. It does not seem to me to remedy the situation. In fact it may make it worse.

Senator FLANDERS. That is all I had, Mr. Burgess.

The CHAIRMAN. Thank you, Mr. Burgess.

STATEMENT OF MARION B. FOLSOM, TREASURER, EASTMAN KODAK CO., ROCHESTER, N. Y.

Mr. FOLSOM. Mr. Chairman and gentlemen of the committee, I am Marion B. Folsom, treasurer of the Eastman Kodak Co. During the period from March 1944 through December 1946 I served as staff director of the House of Representatives' Special Committee on Post-war Economic Policy and Planning under the chairmanship of Congressman Colmer.

Rather than give only my personal views on the problems which are being considered by your committee, it seemed to me that it would be more profitable to outline to you some of the recommendations on current and long-range economic problems which were made by the Colmer committee in its final report, issued in December 1946. While the situation has changed in some respects during the intervening 6 months, the basic problems are practically the same and many of the recommendations of the committee are still pertinent.

This 18-man bipartisan committee issued a series of 11 reports, based upon extensive hearings and study, and many of its recommendations were carried out by Congress. The final report summarized its views on the then current economic problems and certain longer-range problems. All these reports received approval of the entire committee, there being no minority reports.

MACHINERY OF GOVERNMENT IN ITS EFFECT ON ECONOMIC POLICY

The committee called attention in its final report to the need for a standing committee to advise Congress on all aspects of economic policy, pointing out that the existing committee structure was deficient in this respect. It stated:

> Frankness requires the confession that most of the standing committees of both Houses are concerned with the special interests of that sector of the economy with which they are mainly charged and that it is with the greatest difficulty that the relation of these policies into a coherent program is achieved at the legislative level.

Your joint committee is in an ideal position to fill that need. It would seem to me that reports by your committee from time to time on major economic policies would serve as useful guides to the various committees of both Houses. They would also provide the background for the recommendations which the committee will make on the President's report.

The Colmer committee also pointed out the need of a better coordination of the executive departments and agencies as they affect the over-all economic policy of the Government. An attempt was made during the wartime to bring about this coordination through the Office of War Mobilization and Reconversion. While the experience of this Office was not entirely satisfactory, it did offer a valued example as to what could be accomplished if there were a proper staff organization within the executive departments to coordinate the activities of the departments and many independent agencies. The Council of Economic Advisers would fit logically into such a general staff organization but the Council alone is not sufficient. The committee stated:

The scale of peacetime operations of any modern government involves the necessity of bringing into line general fiscal policy, social objectives, foreign policy, and domestic politics. To accomplish this requires a governmental agency that coordinates not only the major departments but the large number of independent regulatory commissions and the many governmental corporations created by act of Congress.

The committee, therefore, recommends to Congress the study through its appropriate committee structure of the legislative aspects of such policy formation in peacetime.

EMPLOYMENT AND UNEMPLOYMENT

The Colmer committee in its December report pointed out that although employment was at unprecedented peacetime levels, production in several important industries was considerably below the rate to be expected from this high level of employment.

In many industries costs had increased appreciably since the end of the war because production per man-hour had not increased sufficiently to offset the increase in wage rates and material costs.

The low productivity was due to a number of reasons, such as, the high rate of labor turn-over, the large proportion of workers without adequate skill and training, the delays in the flow of material—partly caused by strikes.

Since the first of the year employment has increased still further and there has been an improvement in productivity in many industries. Labor turn-over has declined appreciably; the workers are becoming better trained, and there is a better flow of materials.

Also the installation of new machinery and the improvement of methods are beginning to show results. These factors should continue to operate, and we may expect a further improvement in productivity. This, of course, is the most important factor in increasing the supply of goods and thus preventing further inflation.

The CHAIRMAN. Is that a conclusion you make from general observation, or do you have facts?

Mr. FOLSOM. We have Government figures showing a decline in labor turn-over. We do not have the figures to prove the increase in productivity, but we believe it is a fact.

The CHAIRMAN. You think it has happened?

Mr. FOLSOM. Yes, sir.

Senator FLANDERS. Has absenteeism been a factor to any extent?

Mr. FOLSOM. Yes, I think so, but that is based on general observation.

It is probable, however, that the increase in productivity will not be as great as it was during the first few years after the First World War. For a period in the early twenties, output per man-hour increased almost three times the normal rate of about 3 percent per year.

Figures are not available as to the increase in productivity we are now obtaining, but it is probably not in excess of the normal prewar rate. One factor which will probably prevent a marked increase in productivity, particularly over the long run—the one the previous witness mentioned—is the lack of incentive compared with the period after the last war.

With the extremely high level of personal income taxes and the corporate income taxes being more than three times their level after the last war, the incentive to invest new capital in machinery and equipment is much less than it was. This is one important reason why great effort should be made to reduce Government expenditures and taxes. As the Colmer committee stated, the only way we can expect to continue to improve the standard of living of the people is through increase in productivity.

In the important construction industry, where there is the greatest need and also the greatest possibility of increase in productivity, only slight progress has been made.

The critical period for unemployment will probably be reached when deferred demands for many products have been met and exports decline. If before that time productivity has increased and costs and prices have been reduced, we may be able to avoid any serious unemployment.

The Colmer committee points out that with the proper foresight and action by the Government, industry, and labor, the danger of a serious decline in business and farming should be minimized but that we should be prepared to take care of any unemployment that will develop. They considered that the present unemployment compensation system is a sound and practical means of providing for the unemployed.

In one of its earlier reports, the committee urged States to liberalize the unemployment benefits and considerable progress has been made since then. Now, many States provide benefits of over 20 weeks' duration with maximum weekly benefits of $20 or more.

A number of States, however, are still below these levels and the committee recommended that those States which have not liberalized their benefits should do so; the reserve funds are sufficient to permit an increase in benefits. The committee also thought that the system should be extended to cover workers in small firms, the present system being limited in many States to employers of eight or more.

The committee recommended that action should be taken immediately to extend the coverage of the Federal old-age insurance plan to include groups now excluded, such as domestic servants, farm labor, employees of nonprofit organizations, Government and self-employed groups—normally numbering 12,000,000 people. Many of these were covered during the war because they were in industry but now that they have returned to the normal employment they will lose the benefit of their contributions, unless these occupations are brought under the system.

PUBLIC WORKS AND CONSTRUCTION

In its seventh report, the postwar committee made a number of recommendations regarding postwar public works and construction. I would suggest that your committee carefully consider these recommendations as they are as pertinent now as at the time they were made. The report was based upon a careful study of the problems involved after exhaustive hearings and after consultation with many experts in the field. The committee pointed out construction is too small a factor to be successfully used to stabilize the entire economy, but that concerted efforts should be made to stabilize the construction industry itself.

It recommended that public construction be limited during this period of active private construction to projects of immediate necessity, but that at the same time plans and specifications be drawn up in advance of need by public agencies—Federal, State, and local—so that the public programs can be expanded as private ones slacken.

In the past, the record has not been very good in this respect, as public-construction expenditures generally rise and fall with private expenditures. This is a field in which your committee could do effective work. Good progress has been made to date in the preparation of drawings and specifications and also in carrying out the program of withholding public works during this period of high activity in private construction. But this postponement has probably been due to high costs. There is considerable money available in the State and local governments for various projects. Some of these are absolutely necessary and probably can be postponed only for a short time. Deliberate effort, however, should be made by all Government agencies to hold back as much as possible of this construction so that they will be available to fill the gap in private construction when things fall off.

The Colmer committee felt that additional money should be made available by the Federal Government for advances to the States and municipalities for the preparation of plans and specifications and also for the Federal Government projects already authorized by Congress.

The committee recommended that machinery should be set up to coordinate the construction policies of the various agencies of the Federal Government and, in turn, to coordinate these policies with those of the State and local governments and with private industry. The Council of Economic Advisers would seem to have the authority needed to set up the machinery, and the committee recommended steps to this end should be taken at once.

The committee in its final report expressed a serious concern over the implication of current high construction costs. It pointed out that there was a danger in the industry pricing itself out of the market and that—

> If costs cannot be reduced substantially, the industry will be confined largely to producing only enough housing for the increase in families and will not reach the rehousing market. It is important that the industry improve its methods so that costs can be reduced with increased volume, to bring it into line with other industries.

The CHAIRMAN. I have to be on the floor. I will ask Senator Flanders to preside.

Senator MYERS. Mr. Folsom, do you think the President's recommendation presented in his reorganization plan to coordinate all of the housing agencies of the Government is a step in the right direction?

Mr. FOLSOM. As far as administration is concerned?

Senator MYERS. Yes. I understand that.

Mr. FOLSOM. I have not gone into that question enough to know. I would have to study it further, but I would think it would be advisable to coordinate these agencies as much as possible and it seems unwise to spread this activity over so many different agencies.

FEDERAL BUDGET AND TAX POLICY

In its fourth report, issued in September 1944, the committee stated that the basis for the postwar Federal Budget and tax policy should be a firm determination to hold Federal expenditures down to a minimum consistent with the proper functioning of the Government. It pointed out, however, that Federal expenditures after the war would be much higher than prewar years and stated in this report, that:

It is not unlikely that in the first years after the war the total of Federal expenditures will approach $20,000,000,000 per annum.

The following statement is quoted from the final report of December 1946:

The committee wishes to reiterate more strongly than ever the necessity of reducing expenditures substantially. It realizes that we cannot reach the $20,000,000,000 level during the next fiscal year. It would, however, urge serious consideration to reducing expenditures for the fiscal year ending June 30, 1948, to $30,000,000,000, with further substantial reduction during the following year, but with the objective of a $2,000,000,000 budget at an early date.

The committee feels that a budget of $30,000,000,000 is a realistic budget and that expenditures can be reduced to this level without interfering with national defense or other normal functions of the Government. At this level the cost to the Federal Government per family of four would be over $850 per year.

It was pointed out that with this reduction in Federal expenditures a substantial surplus could be created and also that reductions could be made in Federal taxes.

As to tax policy, the committee stated:

TAX POLICY

Unless high levels of production and employment are maintained, the burden of necessary taxation may prove intolerable. Unless a tax program is adopted which will minimize the repressive effects of Federal taxation, this goal may not be reached. Thus, in addition to holding Federal expenditures down to a minimum consistent with the proper functioning of the Government, it is necessary to develop a Federal tax system which will raise the necessary revenue and still distribute the tax burden in a manner that will provide adequate incentives for venture capital, creative effort, and business growth, and also permit expansion in consumer demand.

Partly as a result of the prewar trend and partly due to wartime necessities, the Federal tax system has placed steadily increasing burdens on risk-taking enterprise. On the one hand, it puts a premium on the avoidance of risk provided by the refuge from taxation through tax-exempt securities. On the other hand, it has imposed double taxation on income derived from business dividends and has placed excessive burdens on those businesses and individuals to whom we must look for a large share of the funds required for the expansion of employment opportunities. An adequate reduction in such tax burdens will be essential.

Equal consideration must be given to a lightening of the tax load on the lower-income groups which provide the great bulk of the demand for consumption goods on which employment so largely depends. Social considerations also require that Federal taxes shall not depress the living standards of those who are at a bare subsistence level. Nevertheless, if expenditures are held down to reasonable levels, the committee believes it should be possible to reduce present income-tax burdens on all income groups. Such reductions should do much to stimulate venture capital as well as to provide substantial relief for the lower and middle-income groups.

I might say on a budget of $35,000,000,000 the cost of the Federal Government per family of four would be around $1,000.

Senator MYERS. Do you personally think expenditures could be reduced to $30,000,000,000 for the fiscal year of 1948?

Mr. FOLSOM. The committee went into that pretty thoroughly last fall. Of course we did not go into it as thoroughly as the Appropriations Committee could.

I think if a proper effort had been made early enough by the various departments we could have gotten pretty close to $30,000,000,000. That would involve a very complete overhaul of Government departments and improved efficiency.

If we could get the efficiency all along the line to the level obtained in most industry, you could do a good job in reducing expenditures.

Senator MYERS. Do you think you could cut that low without eliminating some of the functions of government?

Mr. FOLSOM. You would have to eliminate some of the present functions, but it is a question whether some of those functions are really necessary and whether they should not be performed by private initiative or enterprise.

Senator MYERS. That would go into specific things which we do not have the time to discuss at this moment.

Mr. FOLSOM. That is right, but I can assure you those figures were not pulled out of the air.

My personal opinion is that the greatest contribution the Government can make at this time toward the maintenance of the present high level of employment is the reduction of Government expenditures, so that both the debt and taxes can be reduced. It is inequitable to maintain these extremely high wartime taxes for the third year after the war—this being particularly true for those in the middle-income and fixed-income groups. But more important, if these high taxes remain frozen much longer in our economy, we run the risk of killing off the incentives which have been such an important factor in our progress over the years and of placing too much dependence upon Government rather than private enterprise.

Senator MYERS. I think I propounded this question before, but do you have any particular figures for the middle-income group?

Mr. FOLSOM. No.

Senator MYERS. What would you say is the income of the so-called middle class?

Mr. FOLSOM. This group I am talking about is between $5,000 and $25,000. Those in the lower groups have not had such a sharp increase in taxes because of relatively high exemptions.

Senator MYERS. I had some figures the other day, and I wish that I had them here now.

It seems about 90 percent of the taxpayers are in the group of $5,000 and under that, and a relatively small number are in the group to which you refer.

Mr. FOLSOM. Yes. The largest perhaps are in the lower income group where the taxes may only be $25, $30, or $40 a year.

If viewed with the proper prospective, a budget of $35,000,000,000, representing over 20 percent of the national income and four times the prewar budget of 1939, would seem to be entirely too high. With Government expenditures at this level, governmental policy plays a much more important part in the economy of the country than heretofore. It is extremely difficult for governmental action in the economic field to be properly timed—due often to the political situation and to the delays caused by obtaining both the executive and legislative approval. There is thus a danger that larger governmental expenditures are apt to lead to wider swings in economic activity.

MONETARY AND FINANCIAL PROBLEMS

The committee in its final report called attention to the rapid rise which had occurred in consumer debt since the end of the war. The figure is now slightly above the peak reached in 1941. The committee did not take a definite position in regard to the continuation of the regulation of consumer credit on a permanent basis, but because of the effect which consumer installment credit might have upon swings in the business cycle, it felt that this was a matter which should be carefully studied by the appropriate congressional committee.

The committee also studied the credit and capital needs of small business. As a result of its studies, it concluded—

> that with the funds available in banks throughout the country, in both large and small centers, with the plans which have already been formulated by the banks to help smaller companies, the bank-credit situation for business concerns of all sizes can be considered satisfactory.
>
> With regard to equity capital, however, small and new business is probably in a less advantageous position than with regard to bank credit. The cost of issuing securities is considerable and the organized markets are not receptive to the issues of little-known firms.
>
> It has been maintained that this situation has been aggravated by the elaborate requirements of the Securities and Exchange Commission for the registration of securities. Some relaxation in favor of small business seems to be compatible with adequate safeguards.

The committee called attention to efforts already being made by businessmen and bankers to provide equity capital for small business.

As one means of offsetting the inflationary pressure which still exists, the committee thought that there should be a vigorous promotion of both the retention of savings bonds to maturity and purchase of additional bonds. It suggested that the Treasury should be allowed to defray expenses incurred by issuing agents in the operation of payroll deduction plan. It also suggested the possibility of changing the terms of the E bonds so that they would be more attractive; for example, the interest of 2.9 percent might be continued for an additional period on matured bonds and the bonds might be made negotiable for loan purposes.

FOREIGN ECONOMIC POLICY

In a report issued in May, 1945, the committee pointed out that a substantial foreign trade and investment flow is an essential part of continued prosperity. It stated that—

> The enormous capacity of our country to produce, to consume, and to save must result in the postwar period in extensive exports, extensive imports, and extensive foreign investments.

The economic program recommended provided for the relaxation of barriers to international trade and international payments:

> The reduction of trade barriers would serve to attain a political as well as economic goal by substituting economic cooperation for economic warfare and thus would assist greatly in the establishment of a peaceful world order.

Since the end of the war extensive loans have been made to foreign countries. As the result of these loans and the reduction of balances previously accumulated, exports have been maintained at a very high level and considerably above the level of imports.

Currently, exports are being made at the rate of $15,000,000,000 per year, and imports at the level of $6,000,000,000 per year. That is probably a little abnormal. Exports may not continue as they are now and imports may pick up, but that is a big gap of $7,000,000,000 to $8,000,000,000 between export and imports.

Obviously this situation cannot continue unless we expect to receive little in return for the loans.

The country must be prepared to accept a larger volume of imports to pay the interest on the loans and to amortize the principal. Unfortunately, many of the loans have simply been used to maintain the economies of the individual countries and have brought about little increase in production. Eventually we should expect that production would increase and that these countries would be in a position to export more to United States.

Full advantage should be taken of the stock-piling program in obtaining certain strategic materials in repayment of loan.

In commenting on the situation which existed at the end of 1946, the committee outlined the difficulties we are facing in bringing about a healthy foreign trade. These comments still apply:

> It is obvious that serious obstacles are yet to be overcome if the system of unrestricted multilateral trade envisaged by the committee is to become a reality.

I will not read all this because I know you are in a hurry, but I would say one of the great dangers we are facing in making these loans is that we are apt to be dealing with State trading companies rather than getting back into the private industry field. The trend is now away from the multilateral trading. Still the committee felt at that time in spite of those difficulties there was opportunity for extensive foreign trade.

> Special barter arrangements on a bilateral basis are multiplying. Many of the countries of the Western World and all the countries under the domination of Russia are using primarily state trading devices.
>
> In place of the completely multilateral system originally foreseen by the committee, we are now confronted with a strong possibility that the world may become divided into two great economic blocs with trade between the two conducted only under the most difficult conditions. Even within the western group of countries, moreover, opinion is by no means unanimous that a system of unrestricted, multilateral trade will be mutually advantageous for all countries.
>
> Under these conditions, an imediate removal of all barriers to trade is hardly to be expected. More than anything else, a serious postwar slump in the United States would impede the adoption of multilateral and relatively unrestricted trade. For this reason, the committee reiterates its statement in the sixth report that "high levels of output and employmnt at home * * * are an essenial requirement for an expanded world trade."
>
> The difficulties which are now being faced serve to emphasize again the growing responsibility of the United States for directing the course of future world trade. If a division of the world into economic blocs is unavoidable, it is all the more important that trade within the western group of countries should be conducted along the multilateral lines recommended in the committee's sixth report. And more than any other country in this western group, the United States today is in a position to take the initiative in this endeavor. Unlke many other countries, our productive capacity is high and there is almost no possibility that we shall have difficulties with our balance of payments. In the future, the dollar will be used even more as an international currency than it has been used in the past. If we can achieve economic stability at home, and if we continue to advocate the international economic policies which have previously been recommended, there are good reasons to believe that a high and stable level of

international trade can be achieved despite the political and economic uncertainties which confront us in a large part of the world.

ECONOMIC RECONSTRUCTION OF EUROPE

The most important factor in the development of a sound foreign economic policy is obviously economic reconstruction in Europe. As a result of a visit of seven members of the Postwar Committee to Europe in 1945, the committee issued a report in November of that year on the economic reconstruction in Europe. A number of recommendations were made which have since become the policy of the Government. Reference will be made here only to one aspect of the problem, namely, the roconstruction of Germany, which is probably the key to the whole problem.

The committee's report was probably the first authoritative statement of the probable break-down in Germany of the plans which were in operation and its forecasts have been generally borne out by events of the past 2 years. The following recommendations from both its 1945 report and its final report would still seem to apply. It is encouraging that these conclusions are now being generally accepted. It is interesting to note that the War Department has just issued a new directive to General Clay this week, based upon these general principles.

November 1945:

The committee is convinced that to strip Germany of the factories necessary for the ordinary industries of Germany would be to impose a burden of relief on the Western Powers, principally the United States, if widespread starvation and dangerous conditions to the public health are to be avoided in all Europe.

The simplest analysis shows the dependence of the industries of all the other countries surrounding Germany upon German raw materials and German manufactures. To go beyond the limits of destroying the war-making power of Germany is to depress the whole standard of living of Europe and, through it, of world recovery. It follows, of course, that our own foreign trade with Europe would suffer in proportion.

December 1946:

Given the present Russian attitude, it becomes necessary to force the issue by integrating the western zones into as nearly a self-sufficient basis as possible, putting a complete stop to the agreed schedule of reparations for Russia until such time as Russia is prepared to live up to the basic agreement of unifying the economy of Germany.

It is true that in the short run Germany's production is limited by the shortage of fuel more than by prospective reparations deliveries from the western zones. In the longer run, after the next 2 years, however, the limitation of Germany's ability to become self-sustaining will be affected by the application of a level of industry too low to support the greatly increased population of Germany in an impoverished territory.

A small investment in raw materials and some basic machinery made available to the Germans, plus a stop on reparation payments and the building up of foreign exchange as rapidly as possible, seems to be the only method of cutting down the indefinite continuation of this large burden of feeding our ex-enemies that is now imposed on us. This means a productive loan now, or relief and chaos indefinitely.

It further emphasizes the points made at length in the eighth report, and particularly in part 2, of the heavy dependence of other European states on German recovery. While at the time the committee's report was issued the position taken was regarded as extreme, it feels that the evidence of the stagnation of European recovery on a normal basis sufficiently bears out the elementary analysis already offered: Until Germany is able to pay for its own imports, world commerce suffers and those countries which have been heavily dependent upon German production will be retarded to a critical degree in their own recovery.

It is gratifying to know a policy has been decided upon along these lines but it is unfortunate that it took so long. In the meantime, we have lost a lot of time, and it has cost the taxpayers in this country a lot of money.

SHIPPING AND SHIP BUILDING

This industry is the particular concern of the Government because of our dependence upon it for national security in time of war. As a result of its study, the Colmer committee made the following recommendations regarding the postwar problems of the industry:

(1) The maintenance of an enlarged merchant marine under our flag is essential for our national security.

(2) Operating and construction subsidies should be paid, as needed, for merchant vessels the operation of which is considered essential in the interest of national security. The appropriations for such subsidies should be recognized as part of the cost of national defense.

(3) For shipping not considered essential for national security, the comparative costs of rendering transportation service should be the determining factor. No subsidies should be provided to such shipping.

(4) With the exception of a strategic reserve for defense purposes, vessels which cannot be sold either to American operators or to foreign countries should be scrapped. The expense of maintaining ships in sanctuary should likewise be considered a cost of national defense.

(5) The maintenance of a shipbuilding industry in tmies of peace is considered to be in the interest of national security. Its utilization for the continued technical improvement of our merchant marine should be encouraged through the cooperation of the technical experts of the armed services, with subsidies to be paid to the extent necessary to maintain a needed nucleus of skill and capacity. The construction of types of vessels of which a deficiency still exists should be initiated as soon as possible.

POSTWAR AGRICULTURAL POLICIES

The report issued in August 1946, by the House Postwar Committee made a number of recommendations in regards to the immediate and long-run postwar agricultural policies. This report was based upon numerous hearings at which leading uathorities on agriculture appeared, and a thorough study by the committee aided by some of the best-qualified students of the problems. As conditions in agriculture will play such an important part in maintaining the high level of productive employment in this country, I would call your attention especially to the recommendations contained in that report.

One recommendation that might well fall within the province of your joint committee related to a study of the whole question of parity prices:

The committee further recommends—especially in view of the obviously uneconomic price relationships represented by present parity levels for individual commodities—that a thorough reconsideration of parity concepts be made in two respects: The relative levels of parity prices between one commodity and another; and the validity of the general level of all agricultural prices as defined in terms of the 1910–14 base. Study should be conducted and legislation prepared prior to the end of the Steagall period so that farmers will not be called upon to make their plans in the dark.

As a conclusion to its final report to Congress, the postwar committee made certain observations on the general economic problems which we face and the role which Government should play in meeting them.

I would particularly commend these comments to your attention as they represent the judgment of this 18-man committee after a study extending over a period of almost 3 years.

The national income is considerably above the peacetime level and only slightly below the wartime peak. There have been further additions since the end of the war to the large liquid savings in the hands of the public. Purchasing power is at an unprecedented level and could be exerted to push prices higher.

It is thus necessary that moderation be shown by all groups in order to check the threat to a continued inflationary trend—by consumers in spending, by labor in wage demands, by business in pricing policies, by Government in its own spending, tax, and monetary policies.

The greatest contribution to the solution of these problems can be made by an increase in productivity of all factors of production which would both reduce costs and increase supplies.

At the present time there are many who feel that we are going to experience a business recession in the months to come. It must be granted that there is evidence both in the current levels of prices and of operations and in the form of historical analogy which seem to lend support to such fears. The committee, however, does not feel itself able to judge at the moment whether the present maladjustments are such as to presage a general business decline or whether readjustment in specific lines will occur as they have over the past year, one problem following another but without bringing about general retardation.

Considering everything, the committee feels that there is no necessity for either a depression or recession. The country, as has been pointed out, has the greatest buying power and the greatest pent-up demand for consumer products in its history. Loose talk of depressions and business recessions is unjustified and serves no good purpose. There is nothing wrong with the country that hard work and resultant production will not cure.

The committee in its assignment was primarily concerned with economic problems of the immediate postwar period. It has, therefore, not studied those problems relating to the reduction of the wide swings in business activity we have experienced in the past. This is one of the most serious economic problems which the country faces in the future. It is particularly with this objective in mind that the committee recommends that a permanent over-all economic policy committee be set up in each House of Congress with adequate joint staff to conduct a long-range study of this subject or that the Joint Committee for the President's Economic Report be implemented to do this work. Such a committee should work in close cooperation with both the President's Council of Economic Advisers and the executive agency which the committee recommends replace the Office of War Mobilization and Reconversion. These studies should be directed primarily at the effect which Government policy has on these business swings.

There are certain governmental activities which would have to be carried on even if we were perfectly free from economic depressions. Where practical we should carry on these normal functions in a way which will help minimize cyclical variations. With the Federal debt and annual budgets at such high levels, the Government's fiscal policy will be a most important factor, and it is vital that a long-range program for the handling of the debt be formulated. Other necessary programs could be developed with the primary objective of cushioning the impact of economic stress or discouraging economic excesses. Such programs would include unemployed insurance, proper scheduling of public works, and the proper handling of social-security funds.

Where should we draw the line? This committee feels that our experience to date points to the conclusion that the Government cannot and should not take full responsibility for maintaining economic stability or full employment. Such a Government could neither accomplish its purpose nor remain a democracy. We were able to mobilize our economy for war only by surrendering temporarily the basic democratic freedoms which we were fighting the war to preserve. We should not be misled by those who urge that we can equally well mobilize for full employment in peacetime. To do so would be to accept totalitarianism—which we fought to prevent having imposed upon us.

Most of the world that has accepted Socialist and even totalitarian controls has done so through the destruction of private capital during and between the two wars. Whatever the cause of their establishment, these systems have not produced a standard of living remotely approaching our own.

In the past under the American competitive enterprise system, wages and the standard of living have steadily advanced over the years because of the increase in productivity. Hours of work have been gradually reduced and labor standards raised to the highest of any country in the world. The individual freedoms enjoyed by all groups of producers, both management and labor, and by the ordinary citizen in every walk of life have, in spite of defects under the system, unleashed the creative powers of human initiative and enterprise to accomplish these unparalleled results.

Confidence in this free system, derived from its accomplishments and its prospects, is the basis for the committee's recommendations on economic policies. With the excellent record achieved in reaching the present high level of employment, with the backlog of demand for many products still unsatisfied, and with the unprecedented amount of liquid savings in the hands of the consuming public, the committee feels that we have the basic conditions for maintaining a high level of both production and employment. A start has been made toward this goal. The task ahead is to develop economic conditions which will encourage stability of productive employment at a high level.

Senator FLANDERS. Thank you, Mr. Folsom. I think it is exceedingly valuable to get this into our record, the results of that 3 years of work which the House committee did, and we will have it here for further study.

Do you wish to ask any questions, Senator Myers?

Senator MYERS. No.

Senator FLANDERS. We are a little pressed for time, but I am glad you were able to be here with us.

(The following statements, submitted by letter, were accepted by the committee for insertion in the record:)

STATEMENT BY CHARLES R. THEBAUT, JR., PRESIDENT, NATIONAL ASSOCIATION OF INDEPENDENT TIRE DEALERS, INC.

My name is Charles R. Thebaut, Jr. I am in the retail tire business and am president of the National Association of Independent Tire Dealers. The statements I am about to make are pertinent to the industry with which I am associated. However, they are applicable to other lines.

Much legislation passed in recent years has been for the purpose of placing restrictions on the growth of monopoly. Unfortunately, whether the indifferent success of such laws is due to the laws themselves or lack of proper enforcement is still a much discussed question. Undoubtedly, improvements could be made in the legal language of the statutes now on our books and more vigorous enforcement attempted.

This committee is faced with a serious problem. It must devise a formula which will please labor and industry, farmer and producer, buyer and seller of every commodity which makes up our national economy. It is not an easy task and, despite the brilliant testimony given by witnesses before this committee, I believe a new concept of this era must be really established and fully recognized before a pattern of operation may be set.

All of us have been prone to compare present conditions with those of 1926 or 1932 or 1939. Even during the war many Government agencies attempted to fix prices and profits of those periods. Except for the purpose of looking back at these eras as we do on hobble skirts, nine-piece bathing suits, and the automobile duster and goggles, they serve no useful purpose.

Our present economy is based on a new level of income, of wages, of employment—and taxes. All these mean high prices. We can no more relegate ourselves to a $50,000,000,000 national income than we can divest ourselves of 20 years of age.

We do not expect to find 15-cent porterhouse steaks, 12-cent cotton, $3,000 homes, or $20 suits with 2 pair of pants. Neither do we desire the sweatshop conditions, 80-hour weeks, and bankrupt farms.

I believe that we will continue to have high prices—high as compared with 20 years ago. But in comparison with present wages they are not high. The talk of reducing the cost of living has resulted in much conversation and little action. Certainly, some prices are out of reason. It is certainly no time to deplete our national assets or results of productivity to raise prices and lower our standards of living.

I represent a hard-pressed class of business. There are 500,000 small businessmen whose security is threatened. They are the backbone of free enterprise in this Nation. They are the home owners and investors in countless communities. Their pleas in the past have gone unheeded so far as practical or lasting results are concerned. I know there are champions of small business in both Houses of Congress. On this committee are members who have sought to enact legislation to protect small business.

The tire industry was the first to reduce prices below those in effect in 1941. As production in other fields expands, only to meet a lessened demand by a critical buying public, there will be other price reductions. And there will be much flag waving by industry as to the savings effected by the consumer and the lavish contribution by business to our national economy.

But let us see who actually made the contribution which lowered prices in the tire industry. And remember that the same pattern may well be adopted in clothing, farm machinery, and other industries who secure sales and distribution through small, independent retailers and wholesalers.

The price of a 6.00 x 16 tire, the popular size on small cars which accounts for 70 percent of the national tire production, was listed at $16.10 up to June 1 of this year. The price was reduced to $14.40 by several of the leading manufacturers in the industry. The industry heralded this saving of $1.70 as their contribution. But what actually happened? The trade discount was lowered from 30.9 to 29.43 percent and then to 25 percent. Of the $1.70 reduction the manufacturer absorbed 23 cents, the distributor or wholesaler 35 cents and the retailer $1.12. When you talk of raising the minimum wage or shortening hours, remember that they will produce higher costs for retailers. How then, can they be expected to absorb costs, to lower profits, or to meet unwarranted price competition from mass distributors and chain stores? How can independent merchants in the field of distribution remain alive?

I offer for your consideration the recognition that protection of such small business must be an essential part of any program you may develop. If the present trend of monopolistic growth, of squeezing the last lifeblood of profits from small business, of unwarranted price concessions to one segment of business to throttle the other—if these things are to continue then there is no hope or future for the great majority of our millions who cherish the idea of being their own bosses or charting their own destiny. And this includes millions of our veterans who fought for independence and believe they have the right to practice it.

I believe also that the Government and the administration has been derelict in their responsibilities as to properly informing the public as to why prices are high. I oppose knuckling down to any individual or group who has the power to shut down our industries, create havoc, or artificially raise prices to the detriment of our people. I believe that America is composed of many facets which, when working together offer that brilliance with which this Nation was conceived. When these facets fall apart, or lack in cohesion, they lose all value either to themselves or to the Nation as a whole.

I was glad to note Senate Report 405 which favored representation of small business on Government policy-making bodies. We were disregarded at the outset of the war and now are again facing the possibility of becoming a legion of forgotten men in the postwar era. I say that, when independent small business dies, the foundation of our national security will crumble. I beseech you gentlemen, in the interest of total welfare, that small business be given an opportunity to reap its fair share of our profit structure and to contribute its full share to the stabilization of our economy.

THE PEOPLE'S LOBBY, INC.,
Washington 4, D. C., July 18, 1943.

Hon. ROBERT A. TAFT,
Chairman, Join Committee on the Economic Report,
Washington 25, D. C.

DEAR MR. CHAIRMAN: The staff of your committee informs me that I will not be permitted to appear before your committee to state the reasons why the People's Lobby realize more basic measures are needed to prevent a serious depression, than the President's economic advisers suggest.

I therefore enclose a brief for the People's Lobby, which please have inserted in the hearings, with this letter.

Yours sincerely,

BENJAMIN C. MARSH,
Executive Secretary.

STATEMENT TO JOINT CONGRESSIONAL COMMITTEE ON ECONOMIC REPORT BY BENJAMIN C. MARSH, EXECUTIVE SECRETARY, PEOPLE'S LOBBY, INC., WASHINGTON, D. C.

The President's economic advisers seem to be very capable gentlemen—capable of ignoring world trends in their enraptured devotion to what they euphemistically call private enterprise, and equally capable in ignoring the fact that the old concept of private enterprise is out of the window here, as well as in Great Britain, France, and other countries.

Bernard M. Baruch and his associate, John M. Hancock, in their report February 15, 1944, on War and Postwar Adjustment Policies, said:

"With peace * * * each has the right to make what he pleases. Governmental direction and aid disappear. The markets become free, and each individual is dependent upon his vision, his courage, his resourcefulness, and his energy."

They assumed that these characteristics were responsible for the prodigous war production—of which they state:

"The American system has outproduced the world."

They refute this claim, with the comment:

"It is an easier task to convert from peace to war, than from war to peace. With the coming of war, a sort of totalitarianism is asserted."

Dorothy Thompson, challenging the claim "private enterprise" insured war production, stated in her column:

"Our industries did not of themselves prepare us for war. They tried as long as possible to continue business as usual.

"The war effort is the result of Government plans, Government financing, Government debts, Government contracts, Government rules, and Government effort to keep profits and labor in line, according to some standards."

Before we can make any claim to practice "private enterprise" we must:

1. End private monopoly of land and other natural resources, through taxation and social ownership.
2. Repeal tariffs so we may have world-wide competition.
3. End all trade associations designed to fix prices for members, so they may get the benefits of monopoly, without the animosities and jealousies monopoly engenders.
4. End patent privileges.
5. End private manipulation of credit.
6. Repeal all guaranties of prices for farm products.
7. Restore free-for-all competition in transportation, and abolish the Interstate Commerce Commission.
8. End the Farm Security Administration.

When the very able industrialists and farm leaders, who have appeared before your committee, the President's economic advisers, and your committee advocate these measures, it will be in order for you to talk about "private enterprise."

The United States Department of Agricultur interbureau and regional committees on postwar programs stated in January 1944:

"The agricultural production of the United States should be adjusted to national requirements, with due regard for export demand and desirable imports. * * *.

"We believe that private property is a public trust, and wherever public and private interests in land use conflict the public interest should prevail."

These principles—basically the paramountcy of the public interest, and recognition that this involves a much greater Government direction than most people now accept—should govern in industry.

The economic advisers in their report fail to stress that two policies adopted by Congress between the two World Wars invalidate comparison of workable postwar policies.

1. The right of every man, woman, and child in America to a minimum standard of living, employed or unemployed, has been recognized by the Federal Government. Bread lines, casual "charity" and local responsibility have in large measure been scrapped.

2. The right of farmers to a parity price, and till January 1, 1949, to a guaranteed price on some 30 crops (including all major ones) has been acknowledged by the Federal Government.

Meeting these two accepted obligations, may cost from $2,000,000,000 to $5,000,000,000 a year.

Government's duty to insure industry a minimum profit has been tentatively recognized in the provisions in tax laws allowing credits for postwar business losses.

It is quite obvious that Government cannot:

(*a*) Permanently maintain millions in nonproduction.

(*b*) Permanently guarantee farmers a return commensurate with their zeal for parity for any crop they want to produce. Burning potatoes isn't real Americanism.

(*c*) Permanently guarantee industry a profit—without an over-all Government plan for all production in America—agricultural, manufacturing, and extractive, and an equivalent arrangement for employment.

People cannot permanently do that which is right in their own eyes, and expect Government to bail them out of the results of their economic astigmatism.

With a national debt of about $260,000,000,000, we have got to abandon the current America nconcept of democracy as the art of passing the buck to providence and the bill to posterity.

The claim of industrialists that increasing production is essential to raise the standard of living is sound, but relatively few of them admit the corollary—that domestic consumption of this increased production must be paid for out of current income—not by purchases on the installment plan and prolonged consumer credit.

It is not probable that we shall have a depression such as in 1931 and 1932 for at least 4 or 5 years, particularly if we spend here a large part of the $5,000,000,000 or so we may invest annually, on reconstruction, in Europe and elsewhere—on farm products and manufactures, but there will probably be at least 5,000,000 unemployed by early next year—if not this fall, when seasonal employment drops heavily but cost of living doesn't.

If most of America's expenditures for reconstruction are devoted to increasing factory, mine, and field production abroad—we shall soon face pretty stiff competition as a result of such reconstruction we finance—in addition to present competition from Britain, Australia, and some Latin-American, and oil-producing countries.

Not only the census of America's resources as recently suggested but direction of America's production to meet the needs of America and at least some of the needs of the world is imperative.

As Senator O'Mahoney has stressed, economic planning is not regimentation.

It is a program to channel the resources and production of America's productive plant into lines most needed to increase the well-being of the American people and of others, utilizing to the full the initiative, ingenuity, and technical skills which Americans have so well demonstrated in many lines.

The studies and programing of the Committee for Economic Development, which Mr. Paul G. Hoffman cited to you, are sufficient evidence of the need for economic planning.

To be effective such planning must, however, have the backing of Government, which has assumed, and cannot now escape, responsibility for the living standards of the American people.

To implement that responsibility requires a mixed economy—a large degree of public ownership, with technician operation, and democratic controls, cooperative ownership, and private ownership.

Private owners won't produce unless they see the profit they want, and they may see a larger profit in curtailed production or luxury production than in essential production.

Government can't take the rap from consumers, for any length of time, if there is not adequate production of essentials, and they are not made available to all potential consumers, at fair prices.

Buyers' strikes are a relic of the economic dark ages—because they denote industrial anarchy and governmental impotence.

Government has a higher role than policeman, to wit, to insure the provision of an abundant life for all willing and able to work, and equally to insure that those able and not willing to work get the Scriptural approved treatment—"neither shall he eat."

Reliance upon "voluntary price reduction" is as foolish as it would have been to rely upon voluntary production of war matériel.

Prosperity doesn't just grow like Topsy in an environment of acquisitiveness; it requires positive and constructive Government action—in time.

Senator FLANDERS. That concludes the hearings.

(Whereupon, at 12:30 p. m., the committee adjourned.)

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